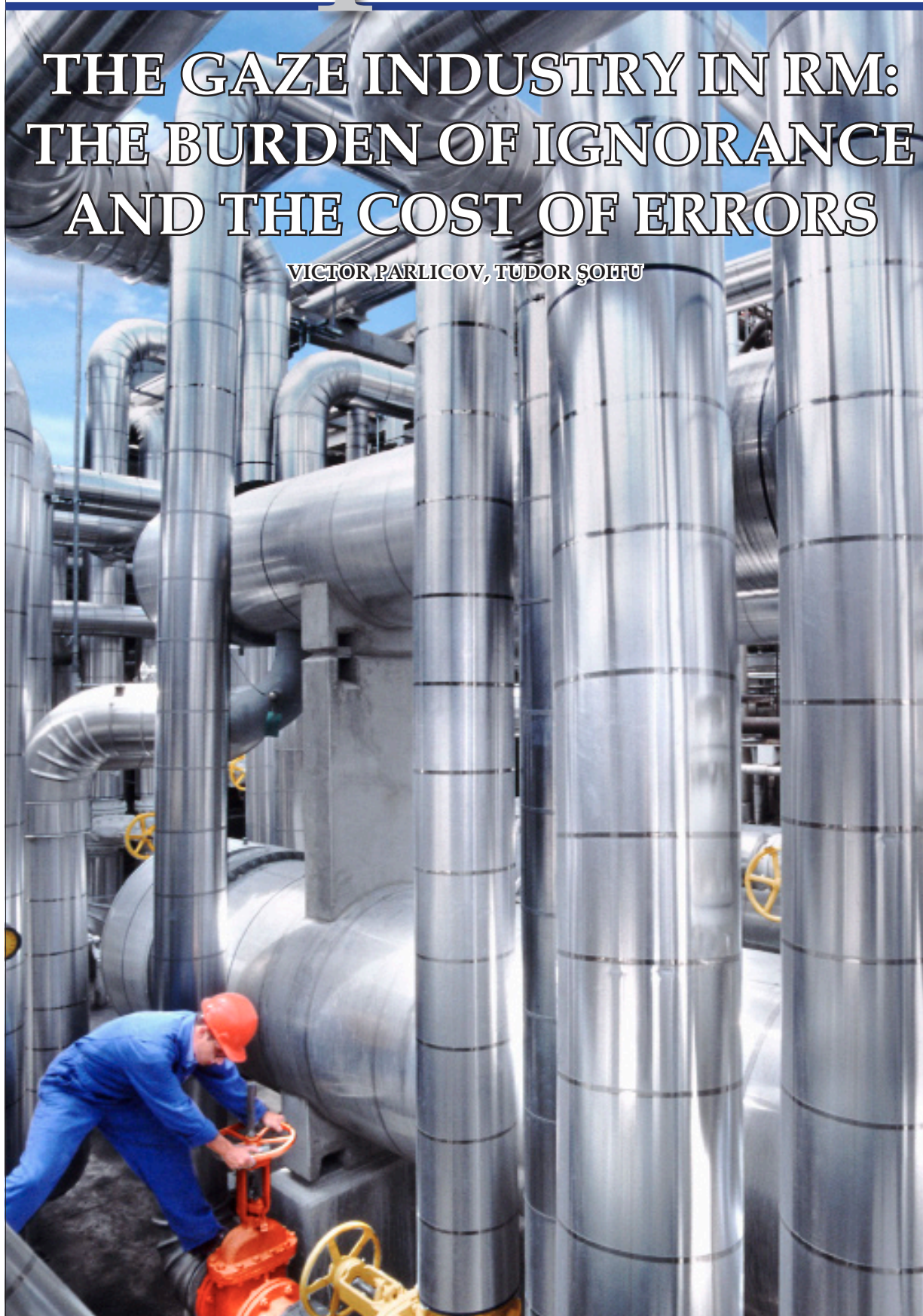


# Politici Publice

## THE GAZE INDUSTRY IN RM: THE BURDEN OF IGNORANCE AND THE COST OF ERRORS

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### List of Abbreviations

ADCB – Ananiev – Drochia – Cernauti – Bogorodceani gas route  
 NAER – National Agency for Energy Regulation  
 ATI – Ananiev – Tiraspol – Izmail gas route  
 REGP – Republican Enterprise for Gas Pipe Line Network  
 RI – Razdelnoe – Izmail gas route  
 SDKRI – Sebelevka – Donetsk – Krivoi Rog – Izmail gas route

## EXECUTIVE SUMMARY

The problem of supplying households and industry with natural gas became a sensitive issue on the entire European continent. Lack of agreement between Russia and Ukraine, the blockade of natural gas supply in the middle of the winter of 2005 and 2006, the struggle for taking control over the gas transit lines situated on the territory of Ukraine, which neighbors Moldova, shuttered the minds in the last years and generated some dubious reactions over the existing state of relations in the former soviet region, which have been established after the „more or least pleasant divorce” of its former republics and provoking tensions with the Central and Western European states. These are invariable tensions which appeared as a result of a deliberate Russian policy, which aims at regaining hegemonic control in this area by means of political and economic leverages. Kiev or Warsaw, similar to the countries (Baltic States, Ukraine, Moldova, Georgia, Armenia) which were directly affected from Russian geo-economic blackmail attempted to offset Russian actions which these countries consider inadequate. Moreover, undertaking the control over the national gas distribution and transit systems leaves these countries vulnerable to energetic security issues and represents a grave factor which is being used in various political and military manipulations of Kremlin.

The tariff policies or the blockade of gas supply creates numerous “time bombs” when following and improving the democratic course of the countries. As a result countries see themselves in a dangerous dependence which impacts their course of democratization. In 2006 EU expressed its discontent for the potential risk which resulted from the Energy Charter, which Russian Federation refuses to sign. Ukrainian parliament ratified a set of laws which prohibit the transfer of the transition system to tertiary parties. This is an attempt to protect the country from recent Russian political and economic expansion. Armenia, Georgia along with Poland and Baltic States are looking for solutions to fence off Russian energetic intentions, which might clench the economies of these countries.

In this regard, what are the actions and the strategy Republic of Moldova is following? What has been done in the past and what will be done to protect the business environment, consumers from geo-economic repressions, bribe takers and artificially inflated tariffs? How should we define in a better way our energetic security, and what should be done to avoid issuing governmental decision without any clear content, but start staking actions in the public interest, in the interest of the populations of Republic of Moldova. It is as well important to realize to what point we have come to. It is well known that country’s administration agreed several years ago to hand over gradually the control over the gas pipe transit routes and distribution networks to the Russian monopolist Gazprom, without receiving anything in exchange which could motivate this transaction.

The story behind this illegal transaction and its consequences remain to our opinion an open topic for discussion for the civic society, public authorities and other institutions from Republic of Moldova who should bring it sooner back-up for public awareness. Only in this way public authorities, civic society and business representatives can express their loyalty for the political regime and constitution of Republic of Moldova. It is a way for the public to recognize the relative utility of the governing institutions.

## 1. POLITICAL AND ECONOMIC CONTEXT

At the end of August 1991, after the collapse of the Soviet Union and the declaration of independence of the soviet republics, there was a need to adjust the framework of the external political and economic relations that governed this space to new realities. The new independent states were recognized by the international community. As a premise of the post-soviet democracy the newly emerging elite was making efforts to define exactly the content of the independence and motivate the objective for transition to a market functional economy and a state of law. The big majority of this elite did not have clear idea over how to achieve this objective.

In the economic sense these countries had to detach a considerable part of the state patrimony, which was in possession of some enterprises directly managed by the central authorities, ministries or specialized agencies. Therefore one of the solutions for re-adjusting the economic relations to the new political context was to reorganize among the newly independent states the patrimony which belonged to the old soviet rule in the frame of setting up new economic relations. The reorganization process starting off in 1991, however due to an enormous work load related to the acquired or transmitted property, decision were made after years of negotiations and repeated appraisals.

In this context the specifics of Republic of Moldova is the 1992 violent military conflict which took place between loyal to Chisinau constitutional regime forces and the separatists from south-eastern part of the country (Transnistria). The separatists were strongly backed by the Russian political rule and military force. The massive implication right after Republic of Moldova declared its independence of the special forces (KGB) and the Division 14, which was transferred in the same period under direct jurisdiction of the Russian Military Forces determined a military intervention and aggression of the latter ones against the sovereignty and independence of Republic of Moldova. The conflict generated a profound crisis both in the relations of political elite from Chisinau with local authorities in Tiraspol and in the bilateral moldo-russian relations.

This crisis could not bypass the transfer process of the economic patrimony. Moreover local authorities from Tiraspol were becoming more determined for separating from RM using violent means. This also implied taking control over property objects which according to the agreement reached between Russian and Republic of Moldova under no means belonged to the separatist authorities. Transnistrians did not have any legal right to take the control over neither the union enterprise from the south-east of Moldova or the Maia retransmission station. The same principle applies in regards to electric lines and transition of natural gas from the left bank of Dnester.



## 2. THE PROPERTY RIGHTS OVER THE NATURAL GAS SUPPLY SYSTEM

After Soviet Union collapsed, Moldova acquired an entire natural gas transportation/transition and distribution network situated on its territory. This heritage can be separated conventionally into 2 distinct components::

1. *Interstate gas transportation network.* There are 4 gas pipe routes which operate at a different pressure level and cross the territory of Republic of Moldova (*see table 1*). Gas is being transported through the first line (ADCB) to the underground deposit at Bogorodceani and the other 3 ensure gas transportation to the neighboring Balcan countries. Gas is being propelled by means of a system of pumping stations (compression) which generate the necessary pressure. As it is indicated in the table, one of these stations is located in Drochia. Other 4 stations in Tiraspol generate the pressure for transporting gas to Izmail using the other 3 lines.
2. *Gas Distribution network,* comprises approximately 7000 km of gas lines which reach consumers throughout the entire country.

**Table 1. Central Gas routes on the territory of Republic of Moldova**

<b>Central Gas Pipe Route</b>	<b>The Length on the territory of RM (km)</b>	<b>Including Transnistria (km)</b>	<b>Location of the pumping station</b>
1. Ananiev-Drochia-Cernăuți-Bogorodceani (ADCB)	199,8	15,0	Drochia
2. Ananiev-Tiraspol-Izmail (ATI)	92,1	18,8	Tiraspol
3. Șebelevka-Donetsk-Krivoi Rog-Razdelnoe-Izmail (ȘDKRI)	124,58	23,1	Tiraspol
4. Razdelnoe-Izmail (RI)	126,46	24,3	Tiraspol
<b>TOTAL:</b>	<b>542,94</b>	<b>81,2</b>	

The evolution of property over this heritage can be divided into 3 time periods:

- I. period (1992- august 1995), the entire gas transportation and distribution heritage remains an exclusive property of Republic of Moldova. However separatist authorities reserve the administrative control over some part of it (*see Chapter I*);
- II. period (august 1995 – october 1998), the Gas Pipe Line Routes are included in the statutory capital of the joint moldo-russian enterprise -- a Closed Jointed Stock Company „Gazsnabtranzit”. „Gazprom” possessed 50% plus one privileged share (voting right) from this enterprise. The local gas distribution network remained a property of Republic of Moldova and remained partially under control of the Tiraspol regime. The 2 companies which are operating this network are „Moldovagaz” and „Tiraspoltransgaz” respectively.
- III. period (october 1998 – present). The entire gas transportation and distribution network becomes part of the statutory capital of the moldo-russian JSC “Moldovagaz”. “Gazprom” holds 50% + 1 privileged share from “Moldovagaz”.

In the upcoming sections of this chapter from this report we will analyze the framework that all the property transformations took place in; its effects over gas consumption and national interests of Republic of Moldova regardless of the party that was in power.

## 2.1. The heritage of the gas pipe routes from the left bank of the Dnester

Prior to proceeding with the analysis of the system use by the Republic of Moldova authorities for administering the natural gas transportation and distribution patrimony, it should be mentioned that

- as a consequence of the situation that resulted from the military clash between the military forces of Republic of Moldova and the separatist ones driven by the marionette government of the Russian Federation in Tiraspol
- after signing the agreement for ceasing fire in the summer of 1992 and outlining the further controlled territory, a big part of the patrimony of Republic of Moldova including the gas transport lines remains in under control of the Transnistrian administration.(see Table 1).

You will therefore notice that there is a branch of the central gas line which spans through the Northern region of the country (see Annex 1) and other 3 gas lines which lie in the southern part of the country. During the soviet time the 4 gas lines were part of the balance sheet of the „Prikarpattransgaz” enterprise. Every of the 4 lines is crossing the separatist territory. The separatist authorities from Tiraspol were administering this patrimony by means of the municipal enterprise called „Tiraspoltransgaz”. Until present moment there has been no legal evidence provided which would confirm the transfer of this heritage from „Prikarpattransgaz” into possession of „Tiraspoltransgaz”. The value of the assets which „Tiraspoltransgaz” is currently possessing cannot be verified using the inventory act since the appraisal was done using the initial value of the assets which cannot be demonstrated by Transnistrian administration as well. At first sight this technical and legal aspect does not seem to be conveying any meaning simply because Tiraspol administration is managing these assets. However the oversight of this issue resulted later in causing a damage to the Republic of Moldova citizen interests’ when establishing in 1995 the JV „Gazsnabtransit” in 1995 and when establishing JSC „Moldovagaz” in 1998. This topic will be analyzed in more details in sections 2.4. and 2.6.

*There is no legal document until present days which could entitle Transnistria to holding a part of Moldova and their value was not verified...*

## 2.2. Sub estimating the value of the patrimony of R.Moldova in 1993-1994

When the nationalization process of the USSR patrimony on the territory of Republic of Moldova was taking place the Department for Gas Line „Prikarpattransgaz” wrote off according to the act from February 12, 1993 a part of the ADCB gas line in favor of the State Department for Gasification from Republic of Moldova. This portion was assigned to „Gazoducte Magistrale” from Drochia. The total value of assets was estimated at 1,13 billion rubles of the former USSR, including amortization (according to the data from 1 January 1993). This value is almost 36,8% from the total value of the gas transportation lines on the territory of Republic of Moldova, not including the value of the 3 gas lines which transport gas to the Balkan states. However even this part of patrimony should have been included on 1 April 1993 on „Moldovatransgaz” balance sheet (the enterprise which was administering this line at that point) at its transferred lei value.

On march 5<sup>th</sup> 1993, the Government of Republic of Moldova adopted the decision nr.118 „Regarding reevaluating the fixed assets and adjusting the value calculation of the state patrimony for a further privatization, taking into account the inflation level in 1992”.

According to p.1 of this decision, the enterprises, institutions and organizations from Republic of Moldova regardless of form of property, were obliged to finish up the before 15 May 1993, the indexation of the fixed assets according to the situation from January 1 1993. These institutions had to finish before December 31<sup>st</sup> 1993 the reevaluation of the fixed assets according to the information resulted from inventory on October 1 1993. The Republican Enterprise for Central Gas Lines "Moldovatrangaz" had to abide to the stipulations of the decision which would bring as we estimate the value of assets of the ADCB gas line to circa 1,33 billion lei. Unfortunately this was not done.

In the following years aiming at accomplishing the State Privatization Program in Republic of Moldova, adopted by the parliament, on May 13<sup>th</sup> 1994 the central government adopted the Decision nr.287 „Regulation and acceleration of the State patrimony privatization process”. This act stipulates that, **at the moment of transformation of state enterprises into JSCs**, the value of patrimonial contributions will be recalculated by multiplying this value taken in the last financial report of the enterprise (which already had to be adjusted according to the Act nr. 118, see previous paragraph) taken by indexation coefficients and will be adjusted according to the cumulative inflation size in 1994. Providing that gas branch administration especially the „Moldovatrangaz” administration executed the stipulations of this Act, by the end of IV<sup>th</sup> quarter (1<sup>st</sup> October) 1994 the value of this patrimony would have reached 15,98 billion lei. Unfortunately even this Act was not put into practice. It appears that the „Moldovatrangaz” administration refuses to obey the decision taken by the government of Republic of Moldova. The situation wouldn't be so grave if: (1) the value of the patrimony would've been recalculated later on, following the stipulated actions in the previous decisions/acts or (2) this patrimony would have remained state property before indexation.

*The value of Moldovan assets was diminished illegally by over \$ 3,5 billion comparatively to the value resulted from the legal stipulations ...*

However in reality after what the administration of „Moldovatrangaz”, under no legal circumstances reduced the value of the Gas Line patrimony which was part of its property, follows on with a proposal to alienate this property. Taking into account that the only body entitled to alienate the state property was Ministry for Privatization and Public Administration, especially to a foreign economic agent, on September 20<sup>th</sup> 1994 the administration of „Moldovatrangaz” and branch representatives initiated on behalf of Republic of Moldova and agreement to establish a moldo-russian JV enterprise which assumed the responsibility to supply Republic of Moldova with natural gas and administer the gas transit on its territory. „Moldovatrangaz” had „Tiraspoltrangaz” and „Gazprom” as partners in this affair. In fact these are enterprises which are not even registered in Republic of Moldova.

Moreover the illegal Agreement which was signed on September 20<sup>th</sup> 1994 stipulates that „Gazprom” will possess slightly less than 51% of shares in the statutory capital of the newly create enterprise. The capital was formed on account of Moldova's debts for gas supplied by „Gazprom”.

It is necessary at this point to emphasize some details:

1. This agreement could have been denounced at any moment as being illegal at least based on the fact that people who signed it on behalf of Republic of Moldova did not have the delegated authority to sign legal documents which were enormously harming the national interests of Republic of Moldova;
2. by renouncing the 50% of gas lines property to a single proprietor, exceptionally monopoly which maintains control over gas supply should be further seen as losing leverage in conducting price negotiations with the monopoly both for consumption and gas transit.

*When Moldova agreed to allow "Gazprom" establish unilaterally the transit price has deprived the country's budget and the citizens from hundreds of millions of lei...*

The realities existing at that moment and even today reveal the picture when it is impossible to create a real market for gas transportation. The reason for this is the absence of alternatives for delivering gas to the Balkan states, while the gas transit line can function only within a integral system. At the same time the property over every of its segment are in the hands of economic agents or even countries. As a result we are seeing a paradox when supply of gas to Balkans is controlled by a small number monopolies because regardless of the line distance that monopolies administer (as it is in the case with separatist authorities from Transnistria) they hold monopoly rights on the functioning of the entire gas system. In order to drop light on the matter of this issue it is necessary to outline that the gas that is being transported through this system is the property of the only monopolist: "Gazprom".

In these ambiguous juridical conditions and complex interdependences, the only method to preserve the negotiation capacity with the Russian monopolist regarding the price is to maintain at least the decision power over the price for transiting the gas through Moldova. Therefore it can be concluded that the initiative expressed in the above mentioned Agreements to give up "Gazprom" 50% state property from the gas pipe routes of Republic of Moldova and implicitly the power to set-up unilaterally the price for transit was a harmful decision for the citizens of Republic of Moldova. In the following chapters we will elucidate how this was translated into practice.

3. The idea itself to pay back the debt of Republic of Moldova to "Gazprom" by giving-up a significant share of state gas pipeline patrimony is not any better or worse than any other decision for paying back these debts providing that Republic of Moldova preserves its negotiation capacity.(see above). De facto this means that Republic of Moldova sold its property at the price of its own debt. However as in the case of any transaction the price matters the most. According to the law the price of one single gas line route from the right bank of Dnester should have cost over \$ 3,7 billion USD. This is the price which should have been offered by "Gazprom". "Gazprom" could have also give its refusal for conducting a similar transaction which would leave Moldova to pay its debts from the other sources (see chapter 2.3) as it has been done in following years.

Nevertheless there few people who could acknowledge the juridical logic and the arguments of this summary over the detriment of the above mentioned agreements which directly affect the economic interests of the country. On October 7 1994 the Government of Republic of Moldova adopted unilaterally the Act nr.749 which stipulates "Establishment of a moldo-russian JV ", which implies the creation of a working group which will be dealing with alienation of the state property by passing the Ministry of Privatization and State Property Administration.

This group was empowered to conduct together **with representations from "Gazprom"** preparation works founding the new enterprise. The group was entitled to coordinate the methodology and recalculate the value of gas transportation assets on the territory of Republic of Moldova. This stipulation was contradicting the functioning legislation of our country, according to which there is only one existing method for reevaluating the assets which are to be assigned as patrimonial contributions: indexation method according using coefficients described in the Government Decision (nr.118 from 1993 and nr. 287 from 1994). Moreover: there are no legal documents which could prove the need for another reevaluation of this enterprise and its assets.

There has been a commission created headed by director of "Moldovatrangaz" who conducted the enterprise property evaluation using other principles than stipulated in the legislations of Republic of Moldova. The group used a methodology which was not published



and being known by certain foreign experts who were acting as "Gazprom" was indicating. The result of this was including into calculation only a part of the property of the enterprise: ADCB Gas Line (in the Northern part of the Republic). Speaking about the remaining 3 gas lines which span 277 km across the territory of Moldova only on the right side of Dnester there has been not a single km taken into calculation. As a consequence of this calculation, the value of gas transportation system from the right side of Dnester was reduced to 343 mln lei, which is over 45 times less than the value calculation method stipulated in the legislation.

The experts from "IDIS Viitorul" based on the available data conducted an independent evaluation of the State Property. The methodology is based on the assumption that the gas pipe system should be viewed as a business. The reason for not estimating the gas line as assets is due to the lack of a real market for gas transportation pipelines. The system for gas transportation and distribution is at the natural monopoly stage.

On the other hand, estimating the value of the gas line assets based on the construction costs is also irrelevant as in the case with compounding the cost for natural gas based on extraction costs or calculating the construction cost of an aqueduct which does not have access to water source anymore. In this context the value of the gas line assets should be viewed as a composition of:

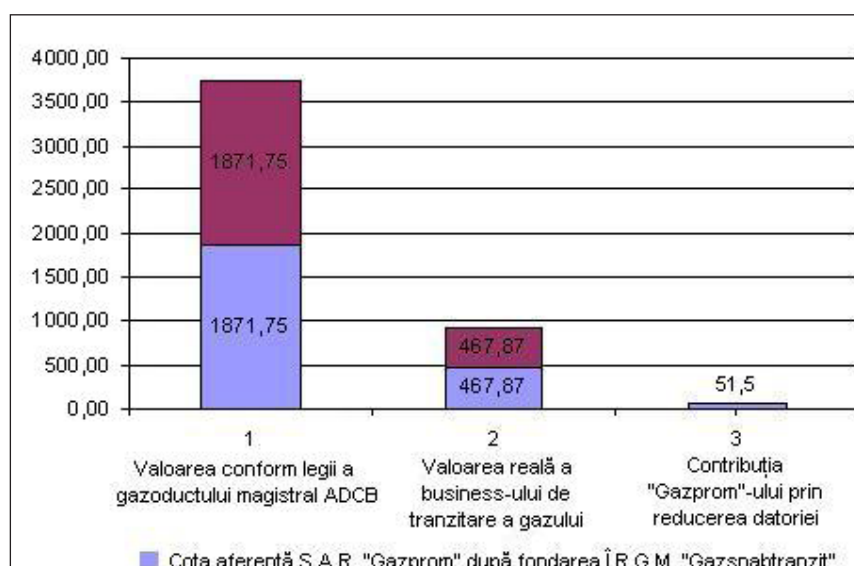
1. **Their value as a natural gas transiting business through Republic of Moldova to a third country; and**
2. **Their value as a part of the natural gas distribution system and its sale in Republic of Moldova.**

The methodology applied by experts from IDIS for estimating the value of the gas line assets in Republic of Moldova was based on calculating future profits and calculating their present values. In other words we aimed at conducting a logical appraisal of the cumulative value in 1994, expected returns from transit gas pipe exploitation. It has to be mentioned that data regarding the transit of natural gas through ADCB (located in the North of the country) are of little credibility indicating that in 1994-1999 there was only one registered case in 1995 for transporting gas using this line. The approximate value of gas is estimated at 10 million USD, which is a smaller transit price compared to the price charged for gas transition to Balkans. For this reason the **3,996 billion lei value** (including 2,997 billion lei afferent to the right side from Dnester) was obtained as a result of principles and calculations from Annex 2 and

**it will be taking as a reference point in this research, when referring only to the value of gas transit business to Balkans using the ATI, SDKRI and RI gas routes..** This value does not include the ADCB pipe route (for the above mentioned reasons ) and does not refer to the value of all the other 4 gas routes within the gas distribution system used for internal consumption in Republic of Moldova due to the difficulty of estimations.

Therefore the illegal Agreement which was signed on September 10<sup>th</sup> 1994 and the Government Decision Act nr.749 created a favorable

*Diagram The Value of Central Gas Pipe Lines 1 comparatively to the price paid by "Gazprom", mln \$*



grounds for the Russian monopoly to purchase the 50% share of gas route assets at a price which is circa 9 times less than the real one (See Diagram 1). This action deprived the citizens of Republic of Moldova from a patrimony which was evaluated at circa 1,78 billion lei, or according to the exchange rate at that time (4,27 lei for 1 USD dollar). It is over 415 million USD dollars, which is equivalent to \$97 taken away from every citizen of the country from both sides of Dnester taken in conventional prices from 1994.

### **2.3. Artificial increase of debts of Republic of Moldova to „Gazprom” in 1994**

As it was mentioned in the previous section, according to the agreement which was signed on September 20<sup>th</sup> 1994 and The Government Decision Act nr. 749 from October 7 1994, “Gazprom” was entitled to 51% share from the statutory capital of the moldo-russian JV which had to be established. If Moldova would have decided to make a physical contribution to the statutory capital (gas lines) then Russian contribution according to the agreement would be compound „...from Moldova’s debt to the gas that was supplied to consumers in 1993-1994...”. In this section we will examine in more details the situation with debts.

*Republic of Moldova made an 89% price discount for „Gazprom” when selling a part of the gas route... If similar conditions would be available for citizens then one would need half a year to purchase an apartment in Chisinau having a salary of a teacher...*

According to the verification act of the economic and financial relations between Republic of Moldova and “Gazprom”, for January 1 1994, at the beginning of the year– this is when the illegal agreement was signed – Republic of Moldova’s debt to “Gazprom” for the natural gas which was supplied constitutes only 22,2 million US dollars, or 94 million Moldovan lei taking at the day exchange course, including 14,3 million US dollars (over 60 million lei) afferent debt to Transnistria. Nevertheless even with adding up the afferent debt of Transnistria this sum does not raise to 30% from the value which was 9 times reduced of a part of the gas line assets! In order to justify the 51% share “Gazprom” was targeting in the new JV, the value of these debts had to be at least greater than 343 million lei plus the gas line patrimony from the balance sheet of „Tiraspoltransgaz”, which also took part at this affair. However with the debt accumulation rhythm at that moment, years were needed to achieve the level that could be at least compared to the underestimated value of the “Moldovatransgaz” assets.

As a result in December 1993 “Gazprom” issued a new project for a contract in which gas delivering conditions for Republic of Moldova were roughly changed. According to the new project:

- The price for natural gas supplied for internal consumption in Republic of Moldova should increase from 38,5 to 80 US dollars per 1000 cubic meters,
- The price for transiting gas through the territory of Republic of Moldova was remaining unchanged, in spite of increasing cost for gas transition and consumption;
- The payment for gas should be done in advance, using weekly payments;
- For each day of delay in payment there should be a 0,35% fine paid from the total amount that is due;
- In the situation of not paying for gas during 2 months “Gazprom” reserves the right to cut off gas supply to Republic of Moldova.

In table 2 there is a comparative analysis of the stipulations from this agreement and other contracts for gas supply from “Gazprom”. Based on this we can conclude that the terms that were proposed to Republic of Moldova were much rougher on the country compared to the terms that were negotiated with other former soviet states. It is not known to what extent a similar analysis was conducted by those made further the decision on behalf of the central

authorities of Republic of Moldova, but this contract was signed without any transparency. The contact was immediately hidden from the public. As a result of a different politics towards Republic of Moldova, during one year(1994), the debt of Republic of Moldova for gas to "Gazprom" increased from 22,2 to 331,6 million US dollars, including penalties: over 140 million US dollars. This enormous debt is a result of the following factors:

Table 2. "Gazprom" gas supply conditions to Moldova and other CIS states in 1994

Indicator	R. Moldova	Other CIS countries
The price for 1000 m3 of natural gas	80 \$	30-80 \$
Ukraine - 80\$	1,316 \$	1,73 \$ (Ucraina)
Transit price for 1000 m3 of natural gas per 100 km	1,316 \$	1,73 \$ (Ukraine)
Penalties for each day when paying off the cost of gas (% from the debt)	0,35	0,02 (standard, including for Moldova in 1995)
Terms of payment and	Advance weekly payment	Data not available
Existing agreements on gas ceasing gas supply	Yes	N

- *Unadjusted price for Gas transit.* As we have described before the gas exporting business by using the central gas routes is very specific, being dominated by natural monopolies at each stage. For this reason, in order to introduce a parity of total income distribution from sale of gas the transit price is being calculated in proportion to prices for gas. Therefore if the gas prices tend to increase the price for gas transiting goes up proportionally. This is a normal widely use practice which can be met for example in Ukraine. In reality the transit price has not been adjusted o the proportional increase of prices for gas which is a lost 93 million lei of income (22 million USD dollars at the exchange course of the day). It has to be mentioned that if the price for transition in Moldova would have been adjusted proportionally to the increase of price for supplied gas to Moldova its value would be significantly greater than in Ukraine. We do not know however where this different comes from.
- *The amount of penalties.* The penalties calculated for other countries for every day of delay in payment consisted 0,02-0,03%. It means that Moldova was imposed penalty which was 12-17 times greater than in other states. If we consider that the average penalty level for each day of delayed payment is 0,025%, then at the same gas price level the amount due would reduce from 140 to 10 million US dollars.
- *Terms of payment.* According to the available data the gas supply contracts with "Gazprom" and other countries presume delayed payments for up to 6 months. In this context, accepting by the former country governors the conditions for weekly advance payments appear to have no economic grounds, especially in the situation when the country cosigned to exaggerated penalty payments for delays. Hence Republic of Moldova had to pay for gas on average 18,5 days earlier than the countries which were making monthly payments for gas that was consumed in the previous month. If all the above mentioned conditions are equitable, the penalties that are calculated for Republic of Moldova would have reduced from 140 to 9 million US dollars, which is approximately a 15 times fall-off. Hence every citizen had to pay additional 30 dollars (in one year!) which at that time was an equivalent for a monthly salary.
- *The Volume of transit gas in 1994.* According to the data for 1994 the transit volume of gas to Balkan states was 2 times less compared to the following years, which suspicious and requires an additional investigation. The reason for this was the essential decrease of income of Republic of Moldova from gas transition, respectively leaving a large debt balance feeding the penalty calculation. Moreover, according to the data provided by „Moldovagaz”, since 1994 until 1999 there was only one gas transit made via the ADCB route (north of Republic). The value of this transaction is \$ 10 mln. In our opinion this

***Penalitățile calculate Republicii Moldova doar pe parcursul anului 1994 pentru neachitarea la timp a gazului au fost umflate de 15 ori, sau cu peste 130 milioane \$...***

*It is dubious that there was 2 as little gas that transited across the territory of R.Moldova in 1994 compared to 1995-1999, and having consumers paid for gas at least 1%...*

information has to be verified (at least using the consumption statistics from the Western Balkan natural gas beneficiary countries. The price for gas transit in this pipe route was smaller for transit to Balkans. Unfortunately this data as well as other information regarding the entire gas supply in Republic of Moldova is not made public. These reports should be reflecting high figures which are very important for the economy of Republic of Moldova.

- *Delay of payment to "Gazprom" even when money was available.* According to the information for 1994, from the total of 70 million US dollars that were to the Russian monopoly for the gas that was supplied, there were only 458 th. US dollars paid in monetary unit, which is equivalent to 1,86 million of lei at the average exchange course for that year, which represents only 0,19% from the **value of imported gas** from Russian Federation in that year. However the tariff at which it was sold to consumers was even higher (see Chapter 3). It is important to outline that "IDIS Viitorul" experts calculated a 10 million lei benchmark for all the money expenses for supply, transportation and distribution system maintenance. Together with the 2 million lei which were paid to Russia, this money would constitute approximately 1% from the total amount consumer was charged. It appears to be impossible for consumers to have paid that little for gas consumption in Moldova in 1994.
- In terms of the *possibility for cutting off gas supply late payments* or any other reason, we do not have information whether there have been similar clauses existed or not in the contract "Gazprom" signed with other countries. It is certain though that according to calculations the delays in payment for gas constituted on average 150 days, which is 2,5 times more than the 2 month term stipulated in the contract. This clause has never been applied, which can be interpreted as it was more convenient for "Gazprom" to continue gas supplies and calculating penalties for entire sum that was being due. This position can be easily understood once that these sums being artificially increased at least 15 times were to be converted into real property over the gas line patrimony on the territory of Republic of Moldova. This "genial" strategy of capturing the property of Republic of Moldova will have grave consequences on the economy of Republic of Moldova, which we are going to be discussing further.

*The total debt of Republic of Moldova by the end of 1994 was artificially increased to \$150 mln ...*

To sum up we can state that by accepting the conditions of the "Gazprom" contract in 1994 the total debt of Republic of Moldova to the Russian monopoly was increased by 150 million US dollars. This meant that each citizen from both sides of Dnester had to pay \$35 (only during 1994) which can be considered as a gift made to "Gazprom" by the administration which accepted to sign this contract and was well aware of the consequences which will occur as a result of its enforcement. Moreover the Russian monopoly was invited to purchase on this money strategic property of Republic of Moldova with a 89% price discount (the prices was 9 times less than the market one). If such conditions were acceptable not only for "Gazprom" but also for other actors (local companies or even Moldovan citizens), then the \$35 which were gifted to Russian gas company would be enough to conduct a successful privatization of some estate values.

## **2.4. Property reshuffling when constituting „Gazsnabtranzit" in 1995**

By ignoring the obvious disadvantages of the transaction which implied underestimating the asset value and artificially increasing the debt, on December 6 1994 the Parliament of Republic of Moldova adopted the Decision Act nr. 305 regarding „Government's proposal for creating a moldo-russian JSC..." According to article 1 of this decision, it was agreed upon



government's decision to pay off the debts by transmitting part of "Moldovagaz" patrimony on "Gazprom" account. This entitles the Russian gas supplier to become a shareholder in the JSC. In this section we will examine in details this process.

First of all it has to be mentioned that in the previous sections we regarded Moldova as integral from the point of view of its patrimony, population. De facto at that moment the juridical and administrative situation was far from being homogeneous. One part of the population, a segment of national territory and significant shares of patrimony (including the system for supply with natural gas) were kept under control of the separatist authorities from Tiraspol. Russian gas monopoly was in a very advantageous position in this regard. This argument is supported by the fact that there were 3 parties which participated at establishing the above mentioned JSC: "Gazprom", with 50% + 1 privileged share obtaining the capital from the debt amount which was accumulated by Moldova (see section 2.3), "Moldovatransgaz" with 39% based on the underestimated value of the gas lines from the right bank of Dnester (see section 2.2) and "Tiraspoltransgaz" with 11% property controlled by the self-proclaimed regime in Tiraspol. Below we will examine how these shares were calculated and how they should've been divided based on the situation in 1994. This moment is considered as a reference point when discussing the foundation of the new JSC.

***In 1994 47,5% of the total debt of Republic of Moldova was the Transnistrian share for gas consumption...***

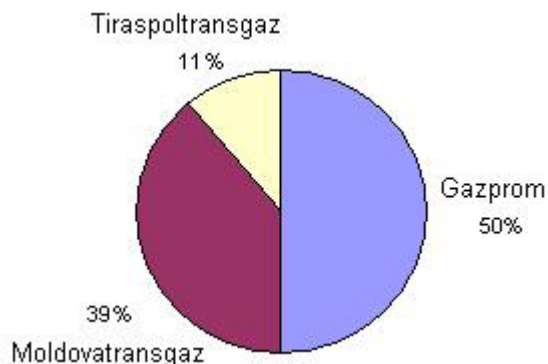
On December 31 the total debt of Republic of Moldova for "Gazprom" for supplied gas constituted 191 million US dollars (excluding the penalties), including 100 million that are afferent to the right side of Dnester and 91 million afferent to the left side. At the same time the value of the participation patrimony of the 2 parties from both banks of Dnester were divided in the following way: \$80,33 million were afferent to the right side of Dnester (equivalent to 343 million lei) and \$22,7 (equivalent to 96,8 million lei). As it was mentioned before in the section 2.1, there has been not verifiable data provided in 1994 which could confirm the declared value of Transnistrian property. Moldova acknowledged the value of this property by simply signing an inventory act which was conducting at its turn also by "Tiraspoltransgaz" without knowing the initial value on the base of which the inventory checking was done. Moreover in the inventory act, "Tiraspoltransgaz" indicated the length of the gas pipe routes as being its property including: 39,5 km from the ATI gas pipe line (out of 18,8 km which currently span on the territory of Transnistria) and 34,0 km of the RI gas line (out of existing 24,3 km). At the same time the inventory act does not comprise the other portions of the gas pipe routes which cross the separatist region (15 km of the ADCB and 23,1 km of SDKRI), which is another proof to the poor quality of the works conducted by the Tiraspol authorities. This implies an actual thought whether to believe or not the document which was the basis according to which Moldova-Gaz was founded. The evidence proves that in 1994 when founding "Gazsnabtranzit", the Tiraspol parties participated with a share of patrimony from its territory. This fraud was ignored by the governing administration from Chisinau.

***When "Gazsnabtranzit" was established in 1994, "Tiraspoltransgaz" participated with its gas assets located on the right side of Dnester...***

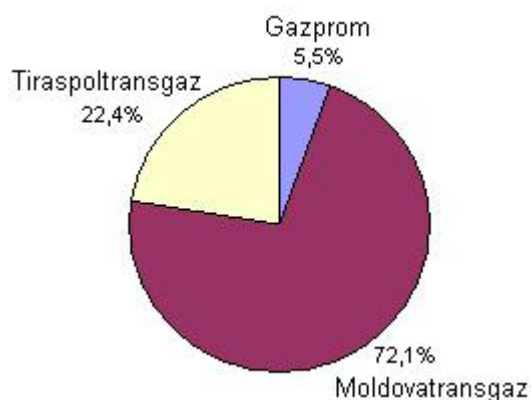
As a result in conditions when none of the official numbers regarding the patrimony of gas pipe line assets and the debts of Republic of Moldova to "Gazprom" do not reflect the actual reality of that time. Both Ministry of Privatization and State Property Administration and Ministry of Finance did not accept Government's law project according which was stipulating "the establishment of the moldo-russian closed JSC "Gazsnabtranzit". This is proven by a lack of acceptance signatures of the 2 bodies. Despite committing these frauds on 12 may 1995 the government of Republic of Moldova adopts Decision nr.302 which stipulated the establishment of "Gazsnabtranzit". It is important to mention that in this context the decision was not published in the "Monitorul Oficial", which does not entitle it to any legal power. With all this, the newly formed enterprise was registered immediately

*Diagram 2. Property share distribution when establishing "Gazsnabtranzit" in 1995*

**Calculations made using wrong data**

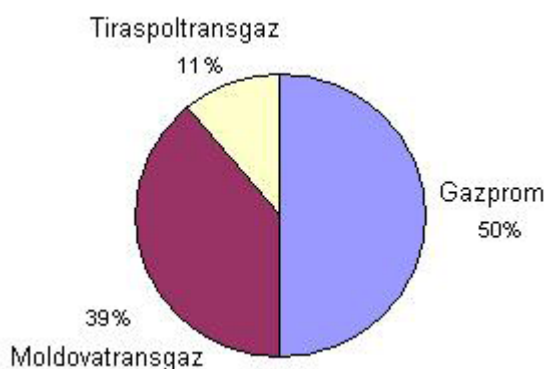


**The situation according to veridical information and calculation method when buying back 50,5 mln \$ in debt value**



*Diagram 3. Participation shares when "Gazsnabtranzit" was established in 1995*

**The picture represent the situation based on veridical data and calculations made providing that Moldova paid back all it's debts to "Gazprom" which totaled 180 mln \$ as of 01.01.1995**



based on the registration permission issued by the Ministry of Privatization and State Property Administration. This body later refused to co-sign the project according to which the enterprise was created.

As a result the process that was launched with multiple ignorance of the legislation of Republic of Moldova resulted that on August 11, 1995 JSC "Gazsnabtranzit" was established having 439,9 million lei statutory (343,1 being afferent to the right side of Dnester and having its value underestimated; 96,8 were declared by the left bank based on a inventory act as aleatory sums of money). "Gazprom" contributed in the newly created JSC only with \$ 51,5 million, which were extracted from the artificially created debt of Republic of Moldova to the Russian gas supplier. This helped "Gazprom" to obtain 50% + 1 privileged share. The remaining 39% and 11% were the participation shares of "Tiraspoltransgaz" (see *Diagram 2*).

Based on this irrelevant data the patrimony should have been divided in the following way: based on the net contribution of each party. In other words from the patrimonial contribution of "Moldovatransgaz" it was necessary to deduct from \$51,5 million the afferent debt of the party from the right side of Dnester. The afferent debt of the left bank of Dnester had to be deducted from patrimonial contribution of "Tiraspoltransgaz".

Due to the significant gap between the repartition of the gas pipe route patrimony (even based on the calculations made by authorities 78% of the patrimony belonged to the right side of the Dnester and the remaining 22% – to the left side) and the debt repartition (52,5% - debt of the right side and 47,5% debt of the left side). By making these calculations we will obtain that the administration from the right side of Dnester contributed with a net amount of 51,8% at the "Gazsnabtranzit" establishment. Transnistrian share constituted 1,8%.

In other words Tirapol had to pay back Moldova another 7,8 million lei. The Central Gas Pipe line assets (including the ones from the territory on the

left side of Dnester) had to be divided equally between "Gazprom" and "Moldovatransgaz". Below we are presenting calculations made based on real values of the patrimony debts.

It is necessary to outline that the value of the gas transit business to Balkan states (excluding the ADCB gas route) constituted when establishing moldo-russian "Gazsnabtranzit" approximately 4 billion lei. From this amount almost 3 billion were afferent to "Moldovatransgaz". Taking into account that debt to "Gazprom" was diminished by 220 million lei (equivalent to 51,5 million US dollars) the property shares when establishing "Gazsnabtranzit" had to be divided in the following way: "Gazprom" – 5,51%, "Moldovatransgaz" – 72,11%, "Tiraspoltransgaz" – 22,38%. If Moldova decided to pay off its debts to "Gazprom", which at that point constituted at that moment not more than \$ 180 million (including all the penalties), the participation share in "Gazsnabtranzit" should have had the following structure: "Gazprom" – 19,24%, "Moldovatransgaz" – 64,91%, "Tiraspoltransgaz" – 15,85% (see *Diagram 3*). Therefore it can be seen that it was possible to avoid the further penalty calculation for late payments. In this case Republic of Moldova would have maintained its control over the price for gas transit through its own territory.

## **2.5. Artificial increase of debt of Republic of Moldova to "Gazprom" in 1995-1997**

After what the new moldo-russian JV "Gazsnabtranzit" was established the property issue in the topic of supplying Republic of Moldova with natural gas continued to evolve according to the scenario which was built in 1994: using different means, Republic of Moldova was accumulating enormous debts that could be later transformed into diverse property forms over country's patrimony. The debt inflation strategy has thrown shadow over the gas debt structure of Transnistria.

In order to evaluate the impact and effective results of these actions, it is necessary that we outline some reference points:

- The price for gas which Republic of Moldova was supplied with in 1995-2004 was established at the constant \$ 80 benchmark for 1000 m<sup>3</sup>.
- The price for transiting gas across the territory of Republic of Moldova remained unchanged since 1995. It's value constituted \$ 2,66 for 1000 m<sup>3</sup> per 100 km.
- The penalty rate for each late date of debt payment was established at 0,02% in 1995 (compared to 0,35% in 1994).
- Between January 1 1995 until January 1 1998, Republic of Moldova consumed 9,43 billion cubic meters of gas, including 5,68 which was consumer exclusively on the territory to the right of Dnester.
- In the same period 78 billion cubic meters of gas transited across the territory of Moldova to Balkan states.
- The debts accumulated by Republic of Moldova (both territories from Dnester) have increased from \$ 190 millions at the end of 1995 (including 140 million of penalties) to \$ 361,6 million with over \$ 149 million of penalties as of January 1 1998.
- Meanwhile in this time frame Republic of Moldova paid \$ 378,4 million in debts, out of which \$ 357,3 million is pure debt of the territory to the right side of Dnester.

We will examine further the debt formation and management for gas consumption in the following 3 years, without repeating the situation with debt inflation with over \$ 150 million by the beginning of 1995.

Even though the price for transiting gas across the territory of Moldova was increase from 1,5 to 2,66 dollars for 1000 m<sup>3</sup> per 100 km, it was not done proportionally with the increase in

***In 1997-1999  
Moldova lost  
\$ 35,6 million  
in profit as a  
consequence of  
not adjusting the  
price for transit-  
ing gas across its  
territory...***

*Republic of Moldova lost \$ 37 million between 1997 and 1999 because it chose to pay off chapter debts against the more expensive ones...*

*In 1997-1999 by reducing uniformly the price for gas for the both territories to Dnester consumers from the territory to right of the river paid \$ 37,5 mil from the Transnistrian consumer's afferent debt...*

price for gas. If this adjustment would have been done (which could be possible if Moldova would not have given away to "Gazprom" its 50% participation share in „Gazsnabtranzit”), the the price for transiting gas across the Moldova territory should have been \$ 3,117 for 100'000 m<sup>3</sup>·km. This is the only reason why Republic of Moldova (both territories from Dnester) **during within 3 years (1995-1997) \$35,6 million in profit.** This is the exact debt amount which "Gazprom" had to deduct from its account for Moldova.

Another method according to which the debts of Moldova were inflated was the irrational if not criminal way of managing the debts. As it has been mentioned before for each day of late payment Moldova had to pay in 1994 0,35% from the total amount that was due. In 1995 this interest rate was reduced to 0,02%. At the end of 1994 the total debt of Moldova (excluding the penalties) constituted \$ 190 million. Between 1995-1997 Moldova paid \$ 378,4 million in debt. As of January 1 1998 according to verification act of the debts „Moldovagaz” to "Gazprom" the penalties which were calculated for remaining amount of gas consumer in 1994 constituted \$39,3 million. This summer was inflated 17 times (0,35/0,02). In fact this ratio is even greater because money paid in this period covered the debts which were penalized with 0,02% for each day of delay instead of covering the penalties which constituted 0,35% for each day of delay. **The penalties for these 3 years were increased by 37 million dollars.**

The situation with the debts of Republic of Moldova was confounded even more when the amount of money for gas that was transiting across the territory of Moldova was not paid directly by „Gazprom”. Based on some calculations the price for this gas was reduced to 22 dollars for 1000 m<sup>3</sup>. This method was applied by "Gazprom" in relations with other countries. However their internal consumption and the volume of gas that was transiting the territory was fluctuating independently without any connection between the 2 variables. It is to be mentioned that our country is characterized by having an ongoing conflict with the separatist authorities. This resulted in having the patrimony of the gas supply and transition network divided and being under partial control of the separatist authorities. Even if we take into account the property shares when „Gazsnabtranzit” was established, which have been wrongly calculated, Transnistria had to own 22% from the total amount of gas that was transiting the territory and 78% belonged to the territory on the right side of Dnester.

Once that this money was converted into a reduction in gas purchasing price from 80 to 58 dollars for 1000 cubic meters of gas, this money had to be distributed not proportionally to participation assets but proportionally to consumption. Knowing that the share of Transnistria in the total amount of gas consumption constituted 40% during the 3 years it acquired \$ 83 million from the \$207,5 million in revenues from gas transition. Moldova gained \$124,5 millions. In reality if we look at the participation share in „Gazsnabtranzit”, Transnistria was supposed to receive \$45,6 million and Moldova \$161,9 millions. Therefore those who paid during the 3 years almost 95% of money for consumed gas to Russian Federation were deprived from another **\$37,5 millions.**

Table 3. Debt repartition of Republic of Moldova to "Gazprom" by January 1st 1998, millions US dollars

Scenarios:	Total	Right territory to Dnester	Left territory to Dnester
According to conditions that were acceptor by Republic of Moldova in 1994-1997, including penalties:	510,8	141,26	369,54
If Moldova paid back its debts when establishing „Gazsnabtranzit”, including penalties:	149,18	41,26	107,92
	104,93	-107,36	212,29
	-30,10	-43,02	12,92



As a consequence the debt of Republic of Moldova to "Gazprom" the end of 1997 constituted \$510,8 millions. This is including penalties in the amount of \$149 millions. The debt was inflated by at least \$222,6 millions. Consumers from the territory to the right of Dnester were charged another \$37,5 which in fact should've been the responsibility of consumers from the opposite territory. If Moldova managed in 1995 to pay back its debt to "Gazprom" when „Gazsnabtranzit" was established using its patrimony (see section 2.4), country's debt to "Gazprom" by 1998 would have only been 104, 9 million US dollars (see table 3). The negative values from this table indicate the over payments that were made. Therefore the administration from the right territory to Dnester paid with \$107,36 millions more than the actual debt. The penalties that were calculated were \$30 million higher than the cumulative amount paid by both territorial units. In real terms if the property structure is preserved for „Gazsnabtranzit" as it is presented in Diagram 3, „Tiraspoltransgaz" had to pay \$104,93 millions to "Gazprom" and \$107,36 millions to "Moldovatransgaz".

Therefore after harming the interest of Moldova in 1994-1995 by \$566 millions (giving away the property at a price of \$51,5 millions which in fact cost \$468 millions), Moldovan administration continued accepting conditions which resulted in a loss of another \$76 millions by 1998.

In the following chapter we will examine how this money was converted into property right over the entire distribution and natural gas supply system.

*At the beginning of 1998 as a result of its actions the total amount of prejudice caused to Moldova constitute \$642 millions...*

## **2.6. The give up of patrimony of Republic of Moldova in 1997-1998 when establishing „Moldovagaz"**

In conditions when by 1998 the debt of Republic of Moldova for gas constituted almost half a billion dollars, the same technique was applied as in 1994 in order to decrease this debt: giving away a part of the supply and distribution gas assets. On January 19 1997, on the basis of the Republic Production Association „Moldovagaz", the Central Enterprise JSC „Moldovagaz Concern" was created. Following this year in October 1997 as a result of negotiations conducted by the vice-prime minister of Republic of Moldova and deputy president of "Gazprom" it was agreed to create in the IV quarter of 1997 the mixed JSC with the participation of the following legal entities:

- **"Gazprom" with the participation share which constituted the debt of Moldova as of July 1, 1997;**
- **Ministry of Privatization and Republic of Moldova State Property Administration;**
- **Coordination committee of Property in Transnistria.**

According to the minutes taken as a result of the negotiations the statutory capital of the newly formed enterprise should be composed from the following:

- The value of of the social capital of the Closed JSC „Gazsnabtranzit";
- The share value of state participation in „Moldovagaz";
- The value of property of the gasification enterprises in Transnistria;
- Value of shares of other people, shareholders of „Moldovagaz".

The same document stipulates evaluation methodology of assets of the newly created enterprise which has to be done according to the legislation of Republic of Moldova. According to p.6 of this document at the beginning of 1998 the asset value of the enterprise

*Breaking the legislation and the „Gazsnabtranzit” foundation contract Republic of Moldova makes „Gazprom” another „gift” of \$40 mln. in 1998...*

will be recalculated taking into account the world market price. The occurring modification in asset value will be added to the statutory capital of the enterprise.

This stipulation is a proof that the value of assets of Republic of Moldova were known at the moment when negotiations were conducted and it will be irrelevant from the economic point of view. In this case the asset reevaluation for adjusting the economic value could have been done before the mixed enterprise was established. Moreover the contract for establishing „Moldovagaz” was signed in October 23, 1998 after the assets were already reevaluated. This implies that the new enterprise could have been formed assets whose value has already been recalculated.

**Table 4. Central Gas Line routes which have been included in „Gazsnabtranzit” as of 31.12.1994 and 01.07.1997, km**

	<b>Territory to the right of Dnester</b>	<b>Territory to the left of Dnestrer</b>	<b>Total</b>
<b>Total Central Gas Line routes including:</b>	<b>461,74</b>	<b>81,2</b>	<b>542,94</b>
➤ ADCB	184,80	15,00	199,80
➤ ATI	73,30	18,80	92,10
➤ ŞDKRI	101,48	23,10	124,58
➤ RI	102,16	24,30	126,46
<b>As of 31 December 1994:</b>	<b>184,80</b>	<b>73,50</b>	<b>258,30</b>
➤ ADCB	184,80		184,80
➤ ATI		39,50	39,50
➤ ŞDKRI			
➤ RI		34,00	34,00
<b>As of 1 July 1997:</b>	<b>305,00</b>	<b>81,20</b>	<b>386,20</b>
➤ ADCB	184,80	15,00	199,80
➤ ATI	20,70	18,80	39,50
➤ ŞDKRI	50,20	23,10	73,30
➤ RI	49,30	24,30	34,00
<b>Central Gas Lines that have not been included by the end of 1997</b>	<b>156,74</b>	<b>0,00</b>	<b>156,74</b>
➤ ADCB	0,00	0,00	0,00
➤ ATI	52,60	0,00	52,60
➤ ŞDKRI	51,28	0,00	51,28
➤ RI	52,86	0,00	52,86

Thus after re-evaluation the value of assets which were part of the statutory capital of „Gazsnabtranzit” increased by 86,8%. At the same time the participation share of „Gazprom” remained unchanged at 50%, while the value of Transnistrian shares increased from 11% to 21,4% after decrease of asset share from 39% to 28,59% of Transnistria. Table 4 outlines the patrimony which was included in calculations when conducting the re-evaluation. The following conclusions can be drawn from this:

1. Only central gas lines that were part of contribution of Moldova’ property to “Gazsnabtranzit” social capital were re-evaluated. Proportionally to the increase of their value, the share value of “Gazprom” (composed from the debts of Moldova for the gas that was consumer) has increased too. According to the available data when the share value of “Gazprom” increased by 191 million lei, the debt of Republic of Moldova to the Russian monopoly did not diminish, which means that

the country made another “gift” to the supplier of \$41,2 million (the exchange rate was 4,63 for 1 dollar).

2. Having in mind that the length of Gas Pipe lines increased by 65%, their value increased by only 37%. The 10,5% increase of gas line for “Tiraspoltransgaz” was translated into a 263,5% increase in value which absolutely unrealistic from any point of view.
3. It is difficult to imagine that people who conducted the re-evaluation of assets which were to be included later in the statutory capital of „Gazsnabtranzit” could not have noticed another 155 km of gas routes which cross the territory located to the right of the Dnester. It is 50 km from each of the 3 gas routes which transport gas to Balkans. This lead to modifications in property structure within the newly established enterprise and inadequate income repartition coming from gas transition, leaving consumers from the Moldova robbed.

Further on the Department for Privatization and State Property Administration proposes the Government to increase the total value of distribution, supply and transportation assets to 1`333 millions of lei, including the cost of Central Gas Pipe routes to 821,81 millions of lei. This would mean that the value of the medium and low pressure distribution networks was estimated at 511 millions of lei (as of 01 July 1997). This is equivalent to \$ 111,1 millions taken at the 4,6 lei per 1 dollar exchange rate. We have to mention that this evaluation is irrelevant from economic point of view since in 1994-1997 after what the price for gas increased to \$80/1000 m<sup>3</sup>, Republic of Moldova using this distribution network was annually consuming gas in the total value of \$240-260 millions. As you will see in Chapter 3, by applying the calculated tariff using misleading legislation, the gas distribution business profitability using this system constituted 10% from this amount. Respectively this is at least \$30 millions per year. The approximate value of the selling gas business in Moldova is estimated to be \$145 millions (applying the methodology from *Annex 2*). As a result of this we encountered another prejudice to Republic of Moldova of \$34 millions. “Gazprom” received \$17 millions from that amount.

In October 21, 1998 the Government of Republic of Moldova adopts the Act nr. 1068 according to which it accepts the offer of Department for Privatization and Public Property Administration to establish JSC “Moldovagaz”. This has been done by violating the Foreign Investment Law (April 1, 1998) which stipulates that when state property is being deposited in the statutory fund of a JSC, it has to be evaluated according to international prices. In October 23, 1998 the Government signed the contract according to which “Moldovagaz” was established, having a 1`333 millions of lei statutory capital. This capital (see *diagram 4*) was divided in the following way: “Gazprom” – 50% plus one share, „Tiraspoltransgaz” (using both Central Gas Route assets and the distribution gas assets) – 13,4%, „Moldovatransgaz” (using Central Gas Route assets) – 20,3% and „Moldovagaz” (using distribution network made of „raigazuri” – territorial agencies on the level of raion(district)) – 16,3%. It is practically impossible to explain de jure and de facto the situation which further was taking place:

*Diagram 4. Property share repartition when establishing S.A. “Moldovagaz” in 1998*

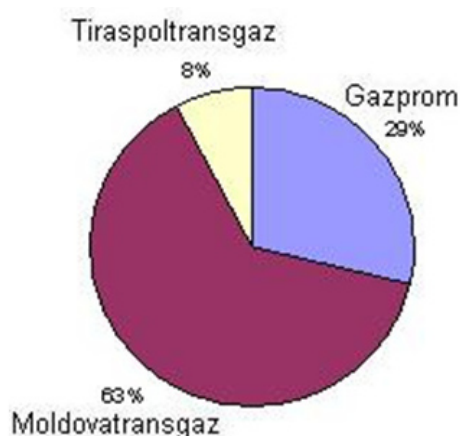


*According to the available information „Gazprom” did not deposit yet its share of participation in „Moldovagaz” which had to be done by diminishing the debt of Republic of Moldova by \$55,5 millions...*

- ✓ First of all the moldo-russian enterprise „Gazsnabtranzit” was not abolished and was not among the founders of JSC „Moldovagaz”. Therefore the Central Gas Pipe lines were part of its property and were also part of the social capital of „Moldovagaz”
- ✓ Even though Moldova made an additional contribution of low and medium pressure gas pipe lines to „Gazsnabtranzit”, whose value was underestimated to \$111,1 millions in 1998 and 1999 there is no data proving that „Gazprom” diminished the debt of Republic of Moldova for consumed gas. The fact alone can be taken as a motive for canceling the contract according to which „Moldovagaz” was established and return to the situation from 1997.
- ✓ The foundation contract was not registered within 2 months as it was stipulated according to the legislation. It was resisted on May 25 1997, which 7 months after the date when the enterprise was established. This is another reason for which the contract should’ve been canceled.

*Diagram 5. Property Share Repartition Repartizarea when establishing JSC „Moldovagaz” in 1998*

**Based on veridical data and calculations**



Below we will present the situation in real terms, according to calculations made in Annex 2 and with regard to information presented in sections 2.2-2.5 (see *diagram 5*). Therefore, even if Moldova would have paid back its entire debt as of end of 1997 with patrimony to „Gazprom” (\$105 millions, afferent to Transnistria), then, keeping in mind that it was necessary to add 670 million lei to the statutory capital of „Gazsnabtranzit” (4 billion lei) – which is the real value of the gas distribution system the new JSC had to have the following structure of the statutory capital: „Gazprom” – 26,83%, Ministry of Privatization and State Property Administration of Moldova– 64,23%, Coordination Committee of the Transnistrian Property– 8,94%. As it can be seen the share of the right bank of Dnester was remaining almost unchanged comparatively to 1998 versus the total value of the social capital which has in-

creased. The share of „Gazprom” should have increased on account of Moldova’s debt which was supposed to be fully extinguished.

Starting with 1999 the situation was evolving based on the new realities after „Moldovagaz” was established. Republic of Moldova continued to accumulate debts, especially the territory to the left of Dnester. In December 2005, „Gazprom” sold the 1,2 billion debt to a US company „Factoring-Finans” Ltd, which is also owned by the Russian monopolist. From this amount 120,1 millions constituted the debt of the territory to the right of Dnester and 567 millions main debt of the territory to the left of Dnester. The other 500 millions in penalties were divided more or less proportionally to the main debt. Starting with 2005 the territory to the right of Dnester started to pay back fully for gas consumption. There have been no other modifications in the property structure over the Moldovan gas transport, supply and distribution were not encountered. In this section we will demonstrate that this structure had to be modified towards increasing the share of Moldovan participation, and potentially participation share of „Gazprom” if the latter one would have decreased the debt of Republic of Moldova.



## 2.7. The situation with local distribution networks (2001-2006)

Based on the data we have, starting with 2000-2001, there were several infrastructure and local development projects launched in Republic of Moldova including rural and urban gasification projects. These projects being demanded by the local population implied the use of local and foreign investments. They supplemented the budgetary sources allocated for implementation of these projects. The most important contribution in this regard had special funds (including the ones administered by MSIF – Moldova Social Investment Fund being mostly financed with credits from World Bank), individual people. There were tens of millions of US dollars allocated using direct financing to which community contribution is added.

Before examining in detail the amounts of money that were invested in these projects from credits that were obtained by Republic of Moldova administration, special allocations from national, sub-national and local budgets, it is necessary to stress the idea that in the contract according to which “Moldovagaz” was established it is stipulated that the enterprise is responsible for modernization, extension and maintenance of gas distribution and transportation networks on the territory of Republic of Moldova. This is a fair stipulation because “Moldovagaz” is the enterprise who will be directly benefiting from network exploitation and receiving the profit. The company is neither a philanthropic organization neither it is a ghost company and at the same does not bear any responsibility for its clients. Moreover this enterprise has monopoly power over gas distribution and transportation. Respectively there is no other organization which has the institutional capacity to exercise the obligation of network maintenance and extension. On the other hand gasification is not solely important to the joint enterprise. It is also in the interest of the citizens because it is a cheaper and more comfortable mean for supplying energy. The same applies for the state of Republic of Moldova. This issue has political importance because it also helps to preserve the forest and improves the general ecology. In this context it is logical to have the state's and citizen's implication in extending the gas pipe line network and implicitly in gas consumption. Nonetheless the financial contribution of Republic of Moldova and its citizens has to be compensated by “Moldovagaz”, which assumed the responsibility to conduct these works on its own account.

*Today a part of the gas distribution network is not listed on the balance sheet of „Moldovagaz”. Nonetheless consumers have to pay the cost for its maintenance...*

According to the report of Ministry of Economy, which was presented during the Parliament's session in April 6 2006, the total amount of budgetary investments (both national and local budget) for extending gas distribution networks constituted 900 millions lei, which is equivalent to \$69,2 millions (at the 13:1 rate of exchange). This number does not include the investments made by MSIF and the investments made by population during the last 16 years. At this session, Ministry of Economy assumed the responsibility to make a detailed report and present it to the Parliament in which it will include the estimative value of these investments. However in 2006 this report was never presented by Ministry of Economy, which can be explained either that this report was not made public at all or it never reached the Parliament.

Based on the information published on the website of MSIF, in the past 2 and a half years (January 1 2004 – July 1 2006), there were \$12 million allocated to be invested for extending Moldova's distribution networks. There is no information regarding the amounts of money that were invested by citizens and neither MSIF publishes the cumulative value of these investments. It would be better if the numbers from MSIF

included also this data in order to obtain a general picture of the infrastructure projects (budget, MSIF, citizen's contribution). According to estimations made by experts from IDIS Viitorul these investments equal to 2 billion lei.

This patrimony whose present value is \$160 million is a juridical vacuum: it is not included in the balance sheet of "Moldovagaz", respectively this enterprise does not have any responsibility in case any exploitation problems occur. It is not even allow including this property on the balance sheet of local authorities who contributed to building this estate. Nonetheless "Moldovagaz" is constantly using these networks and according to the data presented by National Agency of Energy Regulation (NAER), in 2006 the gas consumption in households increased by 2.5%, which leads to a profit increase for "Moldovagaz". Knowing that this property is not on balance sheet of "Moldovagaz", NAER can see itself motivated to increase the tariffs for gas. This intention was stipulated in agency's press release dating February 14, 2007. In the framework of consumer protection this situation has to be solved urgently.

*It is estimated that citizens paid 500 millions lei. This amount has to be reimbursed either by shares from "Moldovagaz" or participation share in the regional gas distribution companies...*

IDIS experts suggest several methods which could resolve the current situation in terms of gas distribution networks in RM:

1. The networks can be transmitted on the balance sheet of "Moldovagaz", at their whole value, respectively increasing the share of Republic of Moldova (particularly –territory from to the right from Dnester) in the statutory capital of this enterprise. Or if "Gazprom" intends to maintain the property share, it has to decrease the debt of Moldova (if there are any debts left using realistic *calculations*, see *Conclusions*) for consumed gas has to be diminished proportionally to the participation share of the Russian monopoly. In this case money used from citizens to build new gas lines can be paid back by S.A. "Moldovagaz" by supplying gas at the price when the investment was made.
2. Based on the investments made for network built-up it is possible to establish regional distribution companies which will have contractual relations with "Moldovagaz" in the framework of the national legislation. The property in these enterprises has to be divided proportionally with the investments made by the state and the citizens.
3. "Moldovagaz" can purchase the property of these networks either by paying money or supplying cheaper gas to compensate the price difference.

*Citizens who invested in gasification need to stipulate their actions on paper...*

It is important that citizen who invested in gasification of their living community have to stipulate their payment on paper. Today a major part of their sums are not stipulated anywhere on paper, therefore there is no economic and legal proof for this money to be returned by "Moldovagaz" or Russian monopoly. Another important observation is that even though the distribution system of the natural gas was appraised in 1998 at \$111,1 millions extension of these networks in 2001-2006 by 78,6% (total length increased by 7000 km up to 12500 km) demanded investments that totaled \$160 millions (144%). IDIS experts that these discrepancies are due to the fact that from the very start, the patrimony of Republic of Moldova was drastically under evaluated in 1998. After this Moldova had to endure the consequences of high expenses for building distribution networks in 2001 until present days.

To ensure the integrity, continuity and comparability of representations, we will examine below the effects of converting the entire debt of Republic of Moldova from

the end of 1996 into property over gas supply, transportation and distribution system (if we use the first method out of the that were described above). If we take as a reference the situation that was presented in diagram 5 (beginning of 1998) and the debts that were accumulated during 1998-2006, then purchasing the debts by letting "Gazprom" participate in the statutory capital of „Moldovagaz" would lead to its increase by at least 13,3 billion lei with property share repartition as follows: "Gazprom" -- 68,43%, territory to the right of Dnester -- 75,61%, „Tiraspoltransgaz": – 44,04%, which means that the accumulated debts by Transnistria are 2 as big as its value of patrimony. When conducting these estimations were took into account the following aspects:

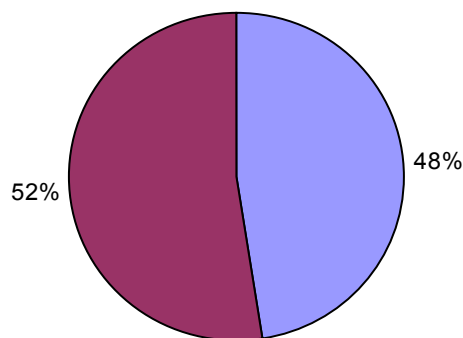
- ✓ Estimative value of the distribution network constituted in 2001-2006 2 billion lei.
- ✓ The value of the gas transition business from the statutory capital had to be adjusted with the exchange rate fluctuations (US dollar).

It is obvious that this structure of the statutory capital is not possible. If the debt of Transnistria would have been divided proportionally to the participation shares of other participants, then "Gazprom" would need to recuperate from the separatist regime another 2,78 billion lei, or \$209 million calculated at the 13,29:1 exchange rate as of December 31, 2006. At its turn administration from Moldova could claim for 3,07 billion lei, which is \$ 231 millions.

These amounts represent credits or grants (because it was little possible to recuperate these amounts having an illegal regime) that have been offered to separatist authorities by "Gazprom" and Government of Republic of Moldova. In other terms this is a way to finance the separatist regime. This calculation does not comprise money paid by consumers from the territory to the right of Dnester, gas and losses afferent to the left side territory using the inflated tariff which could have increased even more the debt of Transnistria for the government of Moldova. In other words this is a way to finance the separatist regime by Republic of Moldova. In such conditions "Gazprom" would own 47,51% from the statutory capital of „Moldovagaz" (13,3 billion lei), and the enterprises that manage the gas transportation and distribution on the right side territory would own the remaining 52,49% (see diagram 6).

*Diagram 6. Property share repartition in JSC "Moldovagaz" as of 31 December 2006*

**Based on veridical data and calculations**



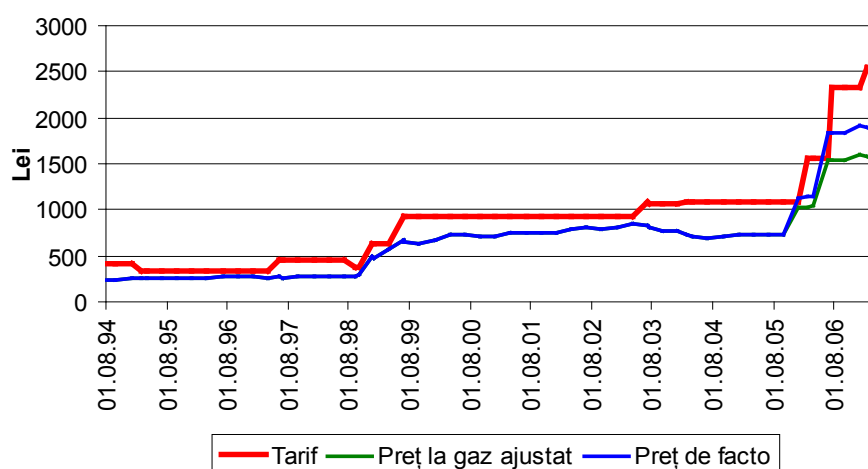
### 3. NATURAL GAS TAXATION POLICY

In the previous chapter we analyzed the situation of gas supply in Republic of Moldova and its transit in the framework of patrimonial relations of "Gazprom" and organizations which were managing this process on both sides of Dnester. In this chapter we will analyze the relations between the gas supply and distribution business and its clients (natural gas consumers) especially with those on the right territory to Dnester because there is data available for conducting the analysis.

It is necessary to outline that due to the fact that the natural gas distribution system represents a monopoly and has a series of economic and political interests, the relations with clients have some specific features. The main feature is that the price for gas cannot be established by the company which supplies it, but is an object of negotiations between the company, whose natural interest is to maximize its profit and the government whose role is to keep the prices constant or low for citizens, public institutions and businesses. Further on we will examine how governmental authorities at different stages starting with 1994 until present days played their role of consumer protectors and what were the effects of their public policies in this domain over national economy and every citizen taken in part.

*Diagram 7. Natural gas de facto tariff evolution versus adjusted real gas price for gas (august 1994-april 2007)*

Based on veridical data and calculations



The gas tariff calculated in Moldovan lei for 1000 cubic meters had the following dynamics versus the price for natural gas supplied to Republic of Moldova adjusted to currency exchange for each period (see diagram 7<sup>1</sup>):

- ✓ August 1, 1994 – March 1, 1995: differentiated average tariff for different consumer categories-- 421 lei<sup>2</sup>.
- ✓ March 1, 1995 – July 1, 1997: the tariff is decreased to 331 lei.
- ✓ July 1, 1997 – September 9, 1998: Average tariff increases to 454 lei.
- ✓ September 9 – December 15, 1998: the tariff is decreased to 370 lei.
- ✓ December 15, 1998 – June 25, 1999: the newly established tariff is 638 lei.
- ✓ June 25, 1999 – July 1, 2003: the tariff for gas is 926 lei.
- ✓ After a short period (1-15 July 2003) when the tariff was 1079 lei, it was decreased slightly to 1058 lei remaining at this level until March 1, 2004.
- ✓ March 1, 2004 – February 17, 2006: average tariff constitutes 1083 lei.
- ✓ February 17 – July 21, 2006: Natural gas tariff was 1553 lei.
- ✓ July 21, 2006 – February 14, 2007: the tariff was calculated at 2335 lei, resulting afterwards in 2545 lei, remaining valid at present moment.

<sup>1</sup> The tariff that is presented in the diagram and text does not include VAT= 5%.

<sup>2</sup> Arithmetic Average for different consumer groups; there is not data regarding natural consumption for this period, therefore it is impossible to calculate the weighted average.



It is important that tariff reduction in 1995 and 1998 took place at the initiative and order of specific people, who are representatives of central power. They managed to present calculations and demonstrate that the actual tariff was inflated. Even though the calculations made by these authorities show that the tariff reduction should have been even greater and based on the de facto tariffs from this period, then *diagram 7* indicates clearly what should have been the real difference between the tariff and the price for gas. In the past time and especially in the latest years this difference became enormous. Population from the right territory to Dnester had to pay annually additional tens of millions of dollars..

The structure of tariff is strictly regulated and stipulates positions that can participate when calculating the tariff. Unfortunately experts from IDIS had access only to data regarding tariff structure from 1996. This data was obtained as a result of an inquiry made by the Court of Accounts in 2000-2001. This is why we will further provide less updated examples (1996) of methods used to inflate the tariff. In other words the principles used when compounding the tariff remained unchanged. Therefore they can be applied when analyzing the existent tariff when its structure will be made public.

### **3.1. The problem of the “lost” gas**

According to the information that is available, the 1996 tariff included gas losses which totaled 41,4 millions lei, or \$ 9 millions at the 4,6:1 exchange rate as of 1996. This is 155 million of cubic meters of gas (calculated at \$58 per 1000 cub. M purchase price with transit discount) or 5% from the entire amount of gas that was consumed in Republic of Moldova including the separatist region.

This is an unacceptable proportion of loss, which is exaggerated in regards to standards in this branch and even in regards to reports of „Moldovagaz”, which stipulates that its gas technological losses sum up to 7,2 million lei.

In order to explain how these losses occur it is necessary to mention that the meters which track the volume of gas which enters and leaves the territory of Moldova are located in Ukraine, at 40km distance from our border. The meter which tracks the volume of gas that exists Moldova in the ADCB gas line is situated in Ukraine as well in the Cernauti region. If you look at the Annex 1, which has the map of all gas routes that transport gas to Balkans then it can be seen that they intersect the Moldovan and Ukrainian border several times. However there are no meters installed on these portions which could allow us to calculate the exact volume of gas which was consumed in Republic of Moldova and Ukraine. In order to make the loss repartition, a moldo-ukrainian commission is being summoned every year which divides these volumes among the 2 countries through negotiation. The public community, local experts from Republic of Moldova have never received answers to what these negotiations mean, what is the procedure according to which the repartition is made, what is the loss estimation method. On top of this, the statute and working documents of this commission, its members, and even minutes have never been made public and were not even presented at Republic of Moldova Court of Account's inquiry, when the latter one conducted an activity audit of JSC „Moldovagaz” in 2000-2001. Any clarification over the gas consumption subject, that are initiated by public authorities have to begin from creating conditions in which transparency and public control over key elements of the existent administrative system will not raise suspicions and fit in the state's organization.

*The meters which are used to track the volume of gas which enters and exists the territory of Republic of Moldova are located in Ukraine, at 30-40 km distance from our border which results in hundreds of millions of cubic meters of gas or dollars in annual loss ...*

It is obvious that gas theft does exist. However when adding up the volumes of gas that is considered to have been stolen, this would mean that during an entire century, those who are responsible for managing the gas transportation and distribution system did not undertake any efforts to solve this issue. In addition to this, not one single Lei, was paid by separatist regime. Money was put on the balance sheet of „Moldovagaz” and respectively consumers had to pay this money which was reflected in the gas tariff. It is impossible that the separatist land did not have any implication in this affair. This argumentation implies that it is not the physical loss of gas by more likely political will to steal the money from consumers on the right territory to Dnester. On the other hand these losses represent an important margin for reducing the tariff: for example in 1996 after eliminating all non-technological losses, the tariff had to be decreased by 20 lei or 4.5% from the existing tariff.

### ***3.2. Including in the tariff for population on the territory to the right of Dnester the afferent expenses of the Transnistrian region***

***“Moldovagaz” increases its annual profitability margin by 10 million US dollars at consumer’s expense after obtaining government’s agreement and across any legal stipulations...***

In the previous chapter (see section 2.5) we mentioned that the situation regarding the gas transit income repartition between the left and right territory to Dnester was modified by reducing unilaterally of the gas purchasing price from Russia from 80 to 50 US dollars at expense of services for transiting natural gas across the territory of Republic of Moldova. It was ignored however that the share of Transnistrian gas consumption was much greater than its contribution to gas transit (according to the property structure in “Gazsnabtranzit”). By making these frauds, in just 3 years consumers from the right territory to Dnester had to pay additionally over \$37,5 millions! However if we consider that the income from gas transit during the 3 years would be split in a 40% to 60% proportion (separatist region and the opposite territory), then the afferent expenses for gas transit and distribution would have been entirely transmitted on Moldovan account with the following clarification: „de „Tiraspoltransgaz” services for gas transportation”. After what Moldovan authorities accepted these expenses (which in 1996 constituted over 9 million lei), the gas consumption tariff was inflated to 5,38 lei, or by 1,2%.

### ***3.3. Illegal increase of the profitability margin***

Another way frequently used by enterprise’s administration to inflate the tariff was „increasing the profitability margin”. The legislation of Republic of Moldova stipulates a 10% profitability margin for companies with a monopolistic power on the market of the country. This margin has to be applied only on production expenses, while branch enterprises also applied the 10% margin on the gas purchasing price. This tariff policy contradicts the legislation of Republic of Moldova because the gas that is being purchased is not being processed. Respectively it has to be considered “merchandise” and not “raw material” or “finished goods”. With this having on hand the government of Republic of Moldova does not take any actions against this measure. This results in tariff inflation by another 26,8 lei (6%). As a result of price manipulations Moldovan consumers are penalized for additional 49,5 million lei just in 1996.

### **3.4. Decreasing the calculations basis (volume of supplied gas)**

Another method used for increasing the tariff was accepting by central authorities the decrease of calculation basis (the volume of supplied gas). As it has been mentioned before the tariff is being calculated for each 1000 cubic meters. It is divided then by expenses made for gas transportation and distribution, maintenance works, etc. to the total volume of gas which was consumed. According to the data Moldova consumed in 1996 3,15 billion of cubic meters of gas, out of which 1,8 billion cubic meters were consumed solely by the right territory to the Dnester. However in order to calculate the tariff based on the data from 1996, the total amount of expenses encountered for gas distribution and transportation (94 million lei, which were also inflated) were divided to 1,2 billion cubic meters of gas, which resulted in another 20 lei increase of tariff (4%). In this regard we tend to mention that in 1999 "Gazprom" pays for the gas that transited across the territory of Moldova not by reducing the gas purchasing price but using additional gas supply volumes to transit across the territory. Knowing the strategy applied for manipulating with data for calculating the volumes of gas that were delivered to Moldova it is urgently necessary to verify whether this information appears on the balance sheet of "Moldovagaz" and were included in the tariff composition at each historical period. We presume it is not included on the balance sheet.

*In its attempts to increase the profit "Moldovagaz" is applying data manipulation. Public authorities accepted this ether because were not informed or having some ill-intentions...*

### **3.5. Including in the tariff penalties for late gas consumption payments and interest rates for paying off credits necessary to return the debt to "Gazprom"**

When calculating the gas tariffs there were additional calculations included regarding the penalties for late payments and credit interest rates. When calculating penalties at 0,02% for each day late payment "Gazprom" is charging 7,3% annual interest rate in US dollars for a credit to JSC "Moldovagaz". Unfortunately there is no information regarding conditions at which this credit was taken, to evaluate the relations between "Gazprom" and "Moldovagaz" in this contract.

However even if the penalty and interest rate sums are included in the tariff calculations, it stimulates a chain reaction of late payments because the penalties for late payments are distributed among all consumers. It means that those people pay in time their bills, transfer a part of accumulated debt by those who do not pay in time or do not pay at all. On one hand this stimulates bad tax payers to keep up with their practice and on the other hand this is being reflected into a financial pressure over loyal consumers. In macroeconomics there exists a law, according to which after a certain level the further increase of tax will diminish its collection. This rule is also available for natural gas tariffs. It is possible to assume how the tax collection could have changed if the bills were 15-20% lower.

*The current tariff structure stipulates that loyal consumers have to pay afferent penalties for those who are late with payments or do not pay their bill at all...*

As a conclusion by recalculating the tariff based on conditions stipulated in 1996 then out of 454 lei, if the corresponding calculation methodology would have been used, the tariff should be under 294 lei. If we take into account that the tariff was to increase proportionally with to the purchasing price of gas and exchange rate fluctuations (because the currency value in the contract with "Gazprom" is in dollars), then we can conclude that during 1995-

***During 1995-2006, consumers were from the right bank of Dnester were forced to pay additional 3,6 billion lei than the real gas price. Having a 50% share in „Moldovagaz” „Gazprom” obtained an additional 1,4 billion lei or 110 million dollars profit...***

2006, by inflating the consumer tariff for population on the territory to the right of Dnester were forced to pay 3,6 billion of lei, which is equivalent to \$370 million. Having in mind that since 1999 “Gazprom” holds a 50% share from “Moldovagaz”, around 1,4 billion lei or 110 million US dollars is the money of the Russian monopoly in the over profits that JSC. “Moldovagaz” encountered at expense of consumers from the right territory of the Dnester. Taking these premises into account today the tariff should be decreased by one third.

These were only direct effects when compounding an inflated tariff for gas consumption. However there are indirect consequences whose effects are difficult to measure in value means, such as:

1. affecting the competitiveness of local producers both on the local and international market;
2. aggravating the Transnistrian by indirect finance of the Tiraspol regime;
3. decreasing the collection rate of payments for gas and the total volume of accumulation
4. Environment pollution and deforestation, etc.



## 4. CONCLUSIONS AND RECOMMENDATIONS

The main conclusions that can be drawn from this report are that the public policies that have been adopted at various historical stages by the administration of Republic of Moldova caused a total prejudice to the country of at least \$ 952,2 millions, including \$111,7 additional profits which were collected by "Gazprom". This money comes directly from consumers from the territory to the right of Dnester. Additionally consumers were forced to pay another \$338,4 million which were used indirectly to finance the separatist regime from Tiraspol through:

*The total amount of prejudices caused as a result of public policies adopted in 1994-2006 are estimated at 1,5 billion US dollars...*

By the end of 1994 and when the establishment of „Gazsnabtranzit“ was coming to an end:

- ✓ Over \$416 millions were obtained by selling at the price of \$51,5 per million a patrimony whose real value is \$468 millions;
- ✓ \$ 150 millions were obtained by inflating the debt to "Gazprom".

By the end of 1997 when JSC "Moldovagaz" was established:

- ✓ \$ 76 million by inflating the debt to "Gazprom";
- ✓ \$95,5 millions by avoiding repaying additionally obtained patrimony;
- ✓ \$70,1 millions obtained by inflating the tariff;
- ✓ Additional \$ 107,36 millions as afferent debts of Transnistrian consumers. This money was paid by consumers from the right territory to Dnester.

By the end of 2006 and by not including the newly built distribution system, in addition to what has been written above:

- ✓ \$103 millions were obtained from not adjusting the price for gas to the transit price;
- ✓ \$240 millions were obtained from inflating the tariff;
- ✓ Additional \$ 231 millions were paid by consumers from the territory to the right to Dnester for debts that were afferent to consumers from the left bank.

The situation that was created in this strategic domain for economic growth of the country can be defined as catastrophic. In such conditions, central public authorities, the Parliament, Government and other public representatives have to summon a National Commission which will investigate the crimes that have been committed and establish a new framework of relations with the Russian monopoly. The new framework will appear only if there will be serious political and economic intentions for protecting the independence and sovereignty of Republic of Moldova.

The following priority steps should be taken by this commission, established by the government of Republic of Moldova:

- ✓ Establishing a transparent framework over information regarding natural gas consumption, transit and consumer tariff calculation. Annex 3 contains the list of documents and information needed to conduct a detailed analysis and not an estimative one. If this data is published in a short time frame this would be a proof of constructive dialogue and intention of "Moldovagaz" for having an open dialogue.
- ✓ Installing an automatic control at the eastern border for tracking the volume of supplied natural gas. Revising the procedures for data monitor at the moldo-ukrainian border;
- ✓ Creating a mixed inter-governmental group with the participation of the business

representatives and civic society in order to assess in a more professional and responsible way the situation described in this paper and offer solutions based on real and not estimative data;

- ✓ Negotiating with “Gazprom” new price conditions for gas transit and consumption equivalent to the ones in Ukraine; subscribing RM to the European Energy Carte, as a natural gas transit country, and appealing to legal services in case Moldova is being rejected by the Russian monopolist;
- ✓ Reevaluating the property which is owned by the shareholders of “Moldovagaz” including Transnistrian property and consumption reevaluation. This can be achieved by using all the legal and economic possible instruments; insisting on cancelling all previously signed agreements and returning to the situation from 1993.



**HARTĂ**

Legend:

- puncte 200m
- puncte 300-399m
- puncte 400-499m
- puncte 500-599m
- puncte 600-699m
- puncte 700-799m
- puncte 800-899m
- puncte 900-999m
- puncte 1000-1099m
- puncte 1100-1199m
- puncte 1200-1299m
- puncte 1300-1399m
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- puncte 16500-16599m
- puncte 16600-16699m
- puncte 16700-16799m
- puncte 16800-16899m
- puncte 16900-16999m
- puncte 17000-17099m
- puncte 17100-17199m
- puncte 17200-17299m
- puncte 17300-17399m
- puncte 17400-17499m
- puncte 17500-17599m
- puncte 17600-17699m
- puncte 17700-17799m
- puncte 17800-17899m
- puncte 17900-17999m
- puncte 18000-18099m
- puncte 18100-18199m
- puncte 18200-18299m
- puncte 18300-18399m
- puncte 18400-18499m
- puncte 18500-18599m
- puncte 18600-18699m
- puncte 18700-18799m
- puncte 18800-18899m
- puncte 18900-18999m
- puncte 19000-19099m
- puncte 19100-19199m
- puncte 19200-19299m



**Annex 2. Estimating the value of the gas transportation business in Republic of Moldova as of 1994**

The evaluation method is called discounting profit flow by calculating their present values.

In other words we will calculate the present (1994) value of future profits.

For applying this method we considered the following reference information:

- ✓ *Calculation Period( $t$ ) = 30 years.* We considered this period because:
  1. The gas transit business is relatively stable because in 1994 the demand for energy resources in Balkans was relatively stable having a tendency to increase in future. The only fluctuations were due to temperature variations during the heating season.
  2. The risk for appearance of alternative technologies for obtaining cheaper energy and their implementation in Balkans and entire Europe is reduced to zero.
  3. The effective working period for gas pipes is between 30 and 100 years. We considered the smaller number.
- ✓ *Discounting rate in the following periods ( $d$ ) = 10% annually.* We use this number because:
  1. As it has been mentioned before the natural gas transportation business is a stable one.
  2. All the calculations and payments in this business are made using a convertible currency which has a world circulation: US dollars. Therefore the business does not depend on fluctuations of national currency and the uncertainties that could have provoked it.
  3. With all this the business is located in Republic of Moldova, the country with an instable legislative, political system on whose territory there have been often conflicts.
- ✓ *Business profit in the first year ( $P$ ) = 77 mln. \$.* This value is not equivalent to the one that was reported by enterprises which administered this system:
  1. The price for transit in 1994, had to be adjusted proportionally to increase of gas prices. It should have constituted 3,1169 dollars for 1000 m<sup>3</sup> which transit the territory. In reality the price remained \$1,5 in 1994 and was increased to only \$2,66 in 1995 (see section 2.5).
  2. According to the data (see Annex 4) the average quantity of gas which transited the territory of Moldova to the Balkans in 1995-1998 equaled to 25,5 billion cubic meters per year. In our calculations we assumed that the volume of gas which transited the territory was 24 billion of cubic meters of gas per year due to the following reasoning: (a) the data which was officially presented in 1994 was wrong (see section 2.3); and (b) gas consumption in 1994 could have been lower than this average due to the general increase of gas consumption trend in Balkans.
  3. The entire amount of money which was obtained from transiting gas should be considered profit, because all the afferent expenses to transit, including depreciation, network maintenance and gas consumed by the compression stations were included in the final tariff (see Chapter 3). As a result this money had to be paid off by consumers.
- ✓ *Average Annual rate of profit growth ( $r$ ) = 4%,* being made of:
  1. Annual average rate of growth for gas prices, which is caused by the general trend for energy resource price increase. This is especially true for non-recoverable energy resources.
  2. Average Annual Gas consumption growth, which is caused by extension of natural gas supply networks and switching from burning coal and oil to natural gas. This is



also caused by the industrial development in the Balkans and the entire Europe.

Therefore for each further period the following formula was applied when calculating the present value of profits:

$$P_n = \frac{P + r \times (n - 1)}{\left(1 + \frac{d}{100}\right)^n}$$

where n is alternating from 1 to t = 30.

The sum of these values  $VP_1, VP_2, VP_3, \dots, VP_{29}, VP_{30}$  equals to

**\$ 935,75 millions or 3,995 billion Moldovan lei**

Using the 4,27 lei per 1 dollar exchange rate, as of 31.12.1994.

The same formula was applied when evaluating the gas selling business to Moldovan consumers except from::

- ✓ *Business profit (P) in the first year was estimated at 30 mln. \$.*
- ✓ *The discount rate of profits (d) was fixed at 24% per year because in this case business is made in the entire country, which has an instable political and economic regime. We look here also at exchange rate risk because the payments to "Gazprom" were calculated in dollars, and the incomes in lei.*

According to the formula, the estimative value of the gas selling business in Moldova equals to:

**\$ 145,37 millions or \$ 668,69 million Moldovan lei**

**NOTA BENE:**

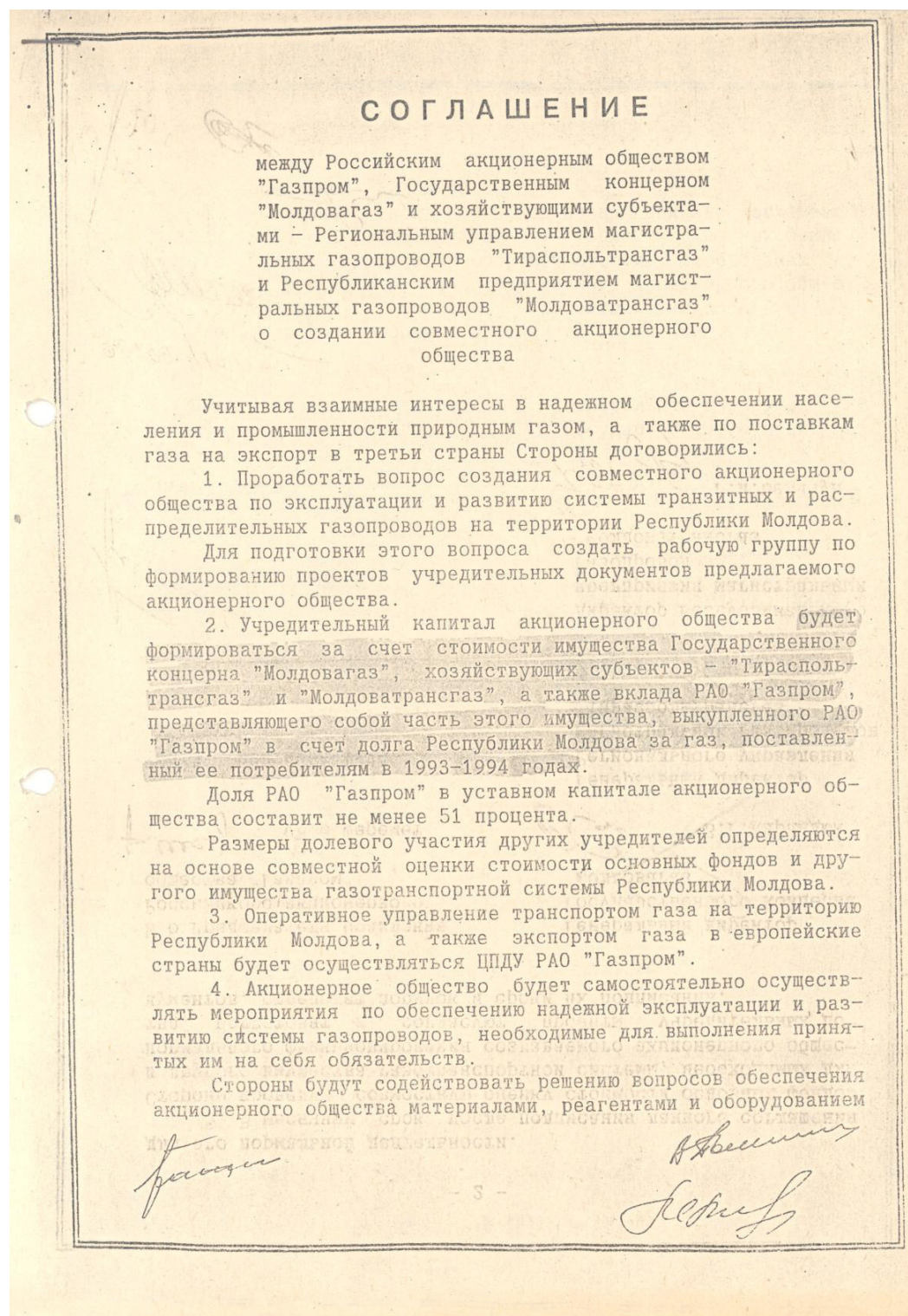
***Due to a tight connection between the price for gas and transit price (which has to be adjust each time) the gas transit business value increases proportionally with to the price for gas. Therefore this value should have been adjusted at least in 2006 and 2007, when the price for gas supplied to Moldova went up.***

**Annex 3. The list of documents and information which have to be made public by the JSC „Moldovagaz” administration**

№ п/п	Наименование показателей	1994 год		1995 год		1996 год		1997 год		1998 год		1999 год		Всего за 1994-1999гг.		2000									
		Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.	Всего по РМ	Правооб.Леообер.								
1	Задолженность за полученный природный газ на начало периода	22202	7878	14324	190970	100738	90832	281692	129757	151935	403612	187618	221994	361608	100025	267583	408740	128235	280505	7878	14324	509339	183635	325704	
2	Количество полученного газа, тыс. м. куб.	2988479	1901050	1085429	3005088	1754013	1251075	3154266	1845414	1308852	3274622	2076273	1198349	2903277	1832904	1070373	2141400	1287387	854013	17465132	10697041	6768091	1785084	830013	955071
3	Стоимость природного газа	238918	152084	86834	175320	102030	73290	182947	107034	75913	190288	120764	69524	168390	106308	62082	128617	77296	51321	1084480	665516	418964	142807	68401	76406
4	Внутренний взаимозачет	261120	159962	101158	366290	202168	154122	464639	240073	224566	593900	326026	267874	529998	223287	306711	537357	204700	332657	1106682	716442	390240	652146	250036	402110
5	Общая задолженность	70150	59824	10326	84598	72411	12187	61501	58929	2572	232292	226001	6291	121258	95052	26206	28018	21065	6953	597817	532282	64535	186871	145808	41063
6	ОАО "Газпром".																								
	в том числе:																								
7	Оплачено в ОАО "Газпром"	458	458		3616	3616		13167	13167		5223	5130	93	7440	4350	3090	11059	11059		40963	37780	3183	21810	20810	1000
8	Оплачено облигациями Республики Молдова										140000	140000								140000	140000	0	90000	90000	
9	Стоимость поставленных материальных ресурсов (бартер) в счет погашения задолженности за газ	9670	9670		18341	18341		35759	33993	1766	85941	79793	6148	102310	85156	17154	16626	9673	6953	268647	236626	32021	24630	7999	16631
10	Строительство жилья на территории Российской Федерации				846	846		1831	1831		1026	976	50	89	89		333	333		4125	4075	50	0	0	
11	Покупка квартир				280	280					102	102								382	382	0	0	0	
12	Решение Международного Коммерческого Арбитража																								
13	Стоимость услуг по транзиту (экспорт)	20181	9855	10326										11419	5457	5962				11419	5457	5962	50431	26989	23432
14	Перечислено за счет кредита	39841	39841																	39841	39841	0			
15	Стоимость переданного имущества газотранспортного комплекса РМ				52000	40560	11440													52000	40560	11440			
16	Транзит Аняев-Черновцы-Богородчаны				9515	8768	747													9515	8768	747			
17	Транспортировка газа							10744	9938	806										10744	9938	806			
18	Задолженность перед ОАО "Газпром" на конец периода	190870	100738	90632	281692	129757	157935	403138	181144	221994	361608	100025	261583	408'40	128235	280505	509339	183635	325704	508865	183160	325705	465275	104228	361047
19	Процент оплаты	29%	39%	12%	48%	71%	17%	34%	53%	4%	122%	157%	14%	72%	77%	58%	22%	28%	13%	55%	75%	17%	68%	84%	54%



**Annex 4. Consolidated information regarding money settling with "Gazprom" for consumed gas (1994-1999)**



1. The total volume of gas which transited Moldova in 1994-2006.
2. „Moldovagaz”, „Moldovatransgaz”, „Gazsnabtransit” balance statements for 1994-2007.
3. Profit and Loss accounts (Form 2) of the above mentioned economics agents for the same period.
4. „Moldovagaz” income flow from consumers in 1994-2006.
5. Moldo-Ukrainean negotiation meeting notes regarding gas loss repartition (1993-2006)
6. Detailed structure of tariffs calculated during 1994-2007

**Annex 5. "Gazprom" experts' recommendations regarding the value of the ATI gas line and income repartition obtained from natural gas transit between the right and left territories to the Dnester (07.02.2000)**

Открытое Акционерное Общество «Газпром»

**Научно-исследовательский институт экономики и организации  
управления  
в газовой промышленности (ООО «НИИгазэкономика»)**

Адрес: 107086, г. Москва, ул. Старая Басманная, д. 20, строение 8  
Телефон: (095) 265-24-20, факс: (095) 267-30-76  
E-mail: econom@emgas.com

Банковские реквизиты: р/с 40702810000000000944  
в АК «Федеральном Банке Инноваций и Развития» г. Москвы,  
к/с 30101810000000000104, БИК 044583104,  
ИНН 7701022125, код ОКОНХ 95120, код ОКПО 47588503

07.02.2000 № 12/46

На \_\_\_\_\_ от \_\_\_\_\_

АО «Молдовагаз»  
Заместителю Председателя Правления  
Пьянкову В. Н.

Уважаемый Валентин Николаевич!

В соответствии с Вашей просьбой, направляем пример укрупненных расчетов эксплуатационных затрат по газопроводу Ананьев – Тирасполь – Измаил.

Была произведена оценка основных фондов газопровода Ананьев – Тирасполь – Измаил (91 км. Ду- 1200) с использованием имеющихся аналогов. В результате расчета стоимость основных фондов линейной части газопровода составила 73,6 млн. долл., стоимость КС – 37 млн. долл.

Расчет эксплуатационных расходов производится по укрупненным показателям:

Затраты по линейной части приняты равными – 4,5 % от стоимости линейной части  
в.т.ч. амортизация – 3%

прочие – 1,5 %

Затраты по компрессорным станциям – 15,0 %

в.т.ч. амортизация – 9 % (по расчетным данным),

прочие – 6 %

газ на собственные нужды (СН) - определяется по конкретному расчету.

Расчет эксплуатационных затрат газопровода Ананьево -Тирасполь – Измаил

Наименование объектов	Стоимость основных фондов (млн. долл.)	Эксплуатационные расходы (млн. долл./год)			
		амортизация	Газ на СН	Прочие расходы	ВСЕГО
Линейная часть	73,6	2,2		1,1	3,3
Компрессорная станция	37	3,33 2,2	4,8	2,2 1,1	10,3 3,3
Итого					13,6

6.6

Так как линейная часть разбита в соотношении 31 % - Приднестровье, а 69 % - Молдова, то примерные затраты Тираспольтрансага составляют – 11,33 млн. долл., а Молдовагаз – 2,27 млн.долл. т.е. примерно 80 % и 20 %. В таком же соотношении должна быть разделена и оплата транзита.

С учетом конкретных условий в расчеты могут быть внесены необходимые коррективы.

Зам.Генерального директора

Т. И. Штилькин



**Annex 6. "Moldovagaz" explanation regarding no including in its calculations the central gas routes and income repartition from gas transit (03.04.2001)**

SOCIETATEA CU RĂSPUNDERE LIMITATĂ  
ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ

**"Moldovatransgaz" S.R.L.**

5200, R.Moldova, or. Drochia, c/p 24  
Tel. (04252) 2.44.52 Fax 2.62.38  
C/d 222402500502 "Moldindconbank"  
or. Chişinău, cod 280101325

5200, Р.Молдова, г. Дрокия, а/я 24  
Тел. (04252) 2.44.52 Факс 2.62.38  
Р/с 222402500502 "Молдинконтбанк"  
г. Кишинев, МФО 280101325

Nr. 801 din 03042001  
La nr. din

Председателю Правления  
АООТ «Молдовагаз»  
Г-ну М.Лесник

Руководителю  
контрольной группы  
Г-ну Т.Шойту

О некоторых вопросах поднятых Счетной Палатой в предварительном (промежуточном) акте проверки относительно создания АОЗТ «Газснабтранзит» и АООТ «Молдовагаз»:

**1. По поводу анализа переоценки основных фондов предприятий магистральных газопроводов (ООО "Молдоватрансгаз" и ПО РУМГ "Тираспольтрансгаз"), переданных для создания АО "Газснабтранзит" по состоянию на 01.10.1994г.**

По словам бывшего главного бухгалтера РПМГ "Молдоватрансгаз" г-на Гросу М.И. при приеме основных средств от "Прикарпаттрансгаза" в описи передачи с баланса на баланс не были включены магистральные газопроводы АТИ – 52,6 км, ШДКРИ – 51,2 км, РИ – 52,1 км, всего – 156,6 км, находящиеся в зоне обслуживания тогда РПМГ "Молдоватрансгаз", хотя согласно существующего диспетчерского соглашения при расчетах, выполняемых РПМГ "Молдоватрансгаз" и ПО РУМГ "Тираспольтрансгаз" транспортной работы в южном направлении эти длины учитывались за РПМГ "Молдоватрансгаз".

Однако, специалисты считают, что не включенные в стоимость основные средства АТИ, РИ, ШДКРИ протяженностью 156,6 км компенсируются увеличением стоимости одного км АЧБ до переоценки и использованием повышенного коэффициента при переоценки. (см. таблица № 1 прилагается).

Что касается не включение магистральных газопроводов, проходящих по территории Гагауз-ЕРИ в стоимость основных фондов "Молдоватрансгаз" вплоть до образования нового общества АО "Молдовагаз" – всего 120,2 км, то поясняем, что по этому вопросу неоднократно поднимались вопросы на уровне АО "Газснабтранзит", Концерна "Молдовагаз", Правительства Республики Молдова, но разрешить проблему удалось только после формирования АООТ "Молдовагаз".

**2. По поводу распределения доходов от услуг транзита газа, оказанные РАО "Газпром" Республикой Молдова.**

Что касается корректного или некорректного распределения доходов, полученных от оказания данных услуг, то следует сказать, что доходы от оказанных услуг как по Правому, так и по Левому берегу не шли на погашение долгов, а направлялись на удешевление закупочной цены. Расчет удешевления закупочной цены для Левобережья и Правобережья Молдовы прилагается (см. таблицу №2).

**3. По вопросу расхождения по долгу Республики Молдова перед РАО "Газпром" между РПМГ "Молдоватрансгаз" и Концерна "Молдовагаз". (Справка, стр.7).**

Что касается задолженности Республики Молдова перед РАО "Газпром", сообщаем, что согласно сводной информации по расчетам за природный газ Концерна "Молдовагаз" и АОЗТ "Газснабтранзит" (АОЗТ "Молдоватрансгаз") с РАО "Газпром" по состоянию на 1 января 1991г. составляет 361601 тысяча долларов США, что подтверждается и информацией, представленной Концерном "Молдовагаз".

Ошибка допущена в сводке информации АОЗТ "Молдоватрансгаз", в строке 11 следовало вместо "задолженность перед РАО "Газпром" на 01.11.1997г." писать "задолженность перед РАО "Газпром" на 01.01.1998г.". Никаких расхождений не существует.

Сводная информация по расчетам за природный газ с РАО "Газпром" по состоянию на 01.01.1998г. прилагается.

Директор  
ООО "Молдоватрансгаз"

Г.И.Беличук

**Annex 7. Informative note of the department of finance from Ministry of Privatization and State Property Administration regarding violations committed when establishing „Gazsnabtranzit”**

NOTĂ INFORMATIVĂ  
a Direcției de finanțe

La examinarea setului de documente a întreprinderii mixte „Gazsnabtranzit” direcția de finanțe a determinat următoarele.

1. Estimarea patrimoniului Republicii Moldova s-a efectuat conform Metodologiei aprobate prin Hotărârea Guvernului nr. 287 din 13 mai 1995, însă la estimarea fondurilor fixe și anume la magistralele de gaz, s-a majorat valoarea, conform sumei stabilite și semnate conform Contractului de constituire și statutului întreprinderii mixte „Gazsnabtranzit”. Reiese, că nu este o aplicare a metodologiei, ci s-a readus la suma stabilită conform Contractului.

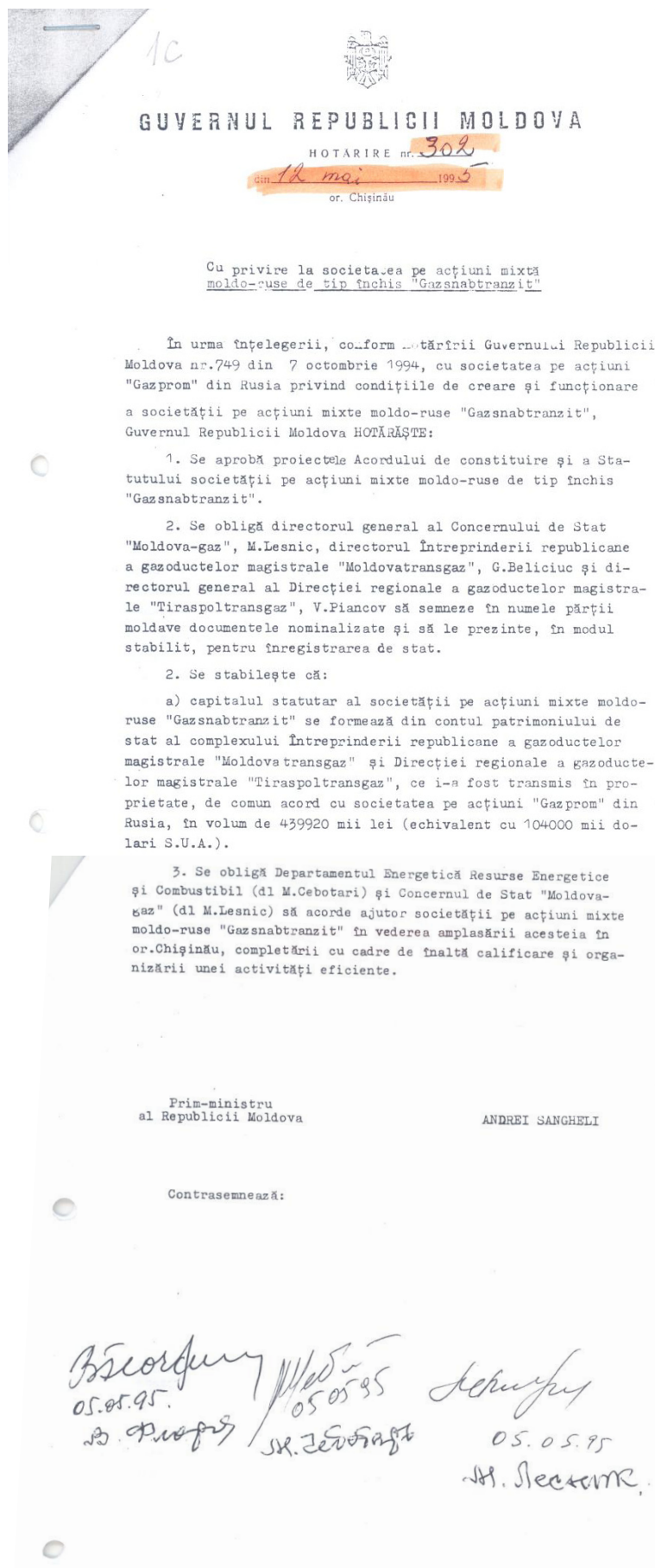
2. S-a adevărit și s-a verificat patrimoniul Republicii Moldova rusei a întreprinderii republicane „Moldovetransgaz” din Drochia prin bilanșul de la 1.10.94, vădit de conducătorul întreprinderii și contabilul ei. Bilanșul întreprinderii „Tiraspolgaz” s-a fost prezentat și deci nu poate fi verificată valoarea patrimoniului inclus în capitalul statutar.

3. Considerăm nelegitimă cota întreprinderii ruse „Gazprom” în capitalul statutar prin datele Republicii Moldova pentru gazele livrate pe anul 1994. Cota întreprinderii Ruse nu este confirmată financiar, e fictivă. Reiese că pe această cotă nu pot fi emise acțiuni, deoarece nu există bani financiari.

Ex. A. Spasov  
tel. 23-33-89

*A. Spasov*

**Annex 8. Decision of Government of Republic of Moldova nr. 302 from May 12, 1995 regarding „Gazsnabtranzit” foundation, which was not published in Monitorul Oficial**





Studiu elaborat în seria “Politici publice” cu asistența Institutului pentru Dezvoltare și Inițiative Sociale (IDIS) “Viitorul”. Seria “Politici publice” reprezintă un program de acțiuni și studii susținut de către OSI. Aceste studii apar cu regularitate în Biblioteca Institutului IDIS Viitorul din anul 2002, alături de alte cercetări și evaluări independente pe subiecte relevante pentru interesul public din Republica Moldova. Opiniile apărute în acest studiu aparțin în exclusivitate autorului.

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idis\_viitorul@mdl.net, si web-site: [www.viitorul.org](http://www.viitorul.org).